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# Development and formalization in Asia : Insights from Japan, Republic of Korea and Singapore

Pauline Debanes, César Castellvi, Monica Dwiyantri

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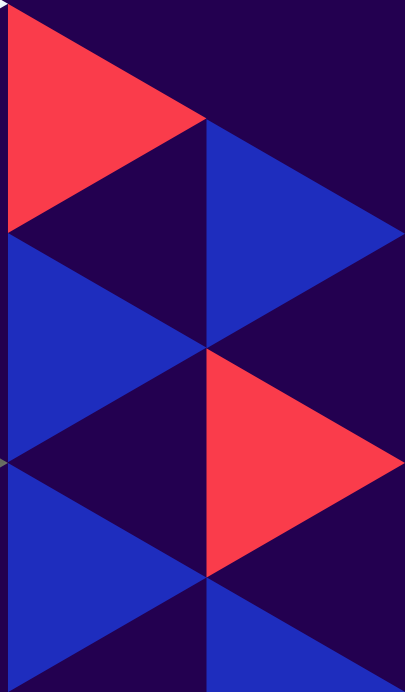


International  
Labour  
Organization

# ▶ Development and formalization in Asia

Insights from Japan, Republic of Korea and Singapore

Regional Programme on Formalization Pathways





# ▶ **Development and formalization in Asia**

Insights from Japan, Republic of Korea and Singapore

Pauline Debanes, César Castellvi and Monica Dwiyanti

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# Foreword

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The informal economy is ever present in the Asia and the Pacific region, with millions of workers earning a livelihood within its realm. Two in three of the region's workers were working informally in 2018, according to the ILO's most recent estimates. The precarity of the region's 1.3 billion informal workers was exposed when the COVID-19 pandemic began in 2020. While the jobs of many formal workers were sustained through labour laws and expanded government wage subsidy programmes, most informal workers were left to their own devices to sustain themselves and their families. Many were pushed over the threshold into conditions of poverty when lockdown periods blocked their capacity to generate sales or take up the daily jobs that had formerly sustained them. The situation was further exacerbated with formal workers who lost their jobs during the crisis swelling the ranks of the informally employed, a situation that will continue until recovery eventually revives the expansion of formal job opportunities.

The growth of informal employment and the unequal suffering of informal workers during the crisis is not surprising. What is surprising, however, is the incapacity of the region to shrink the informal sector despite years of impressive growth that preceded the crisis. Growth in the developing economies of Asia and the Pacific has been driven primarily by investment, increased consumption and the spread of higher-value added manufacturing and services. Formal sector jobs have increased, usually filled by workers with higher skills levels. However, job growth in the informal sector has kept pace. The result is a continued dichotomy of the formal and informal economy and labour market duality that does not disappear with growth.

This situation is not acceptable. Action in support of the ILO Recommendation [Transition from the Informal to the Formal Economy Recommendation, 2015](#) (No. 204) must be scaled up so that all economic units and workers are brought under the umbrella of public services, regardless of their status. Such is the aim of the recent initiative of the ILO Regional Office for Asia and the Pacific's **Regional Programme on Formalization Pathways (FORAP)**. This initiative seeks to accelerate the scope of support to constituents – governments, employers' and workers' organizations – on the integrated policies needed to support formalization. Building evidence and learning lessons on what works in policymaking to promote transitions to the formal economy is another focus of FORAP. This study, which showcases the historical pathways of three advanced Asian economies and attempts to answer the vital question of how they shrunk the informal sector, is a first contribution to the Programme. Many more will follow that we expect to make a valuable contribution to promoting action that increases the equity of economic growth in Asia and the Pacific and brings decent work to all as pledged under Goal 8 of the 2030 Sustainable Development Agenda.



**Chihoko Asada-Miyakawa**  
Assistant Director-General and  
Regional Director for Asia and the Pacific  
International Labour Organization

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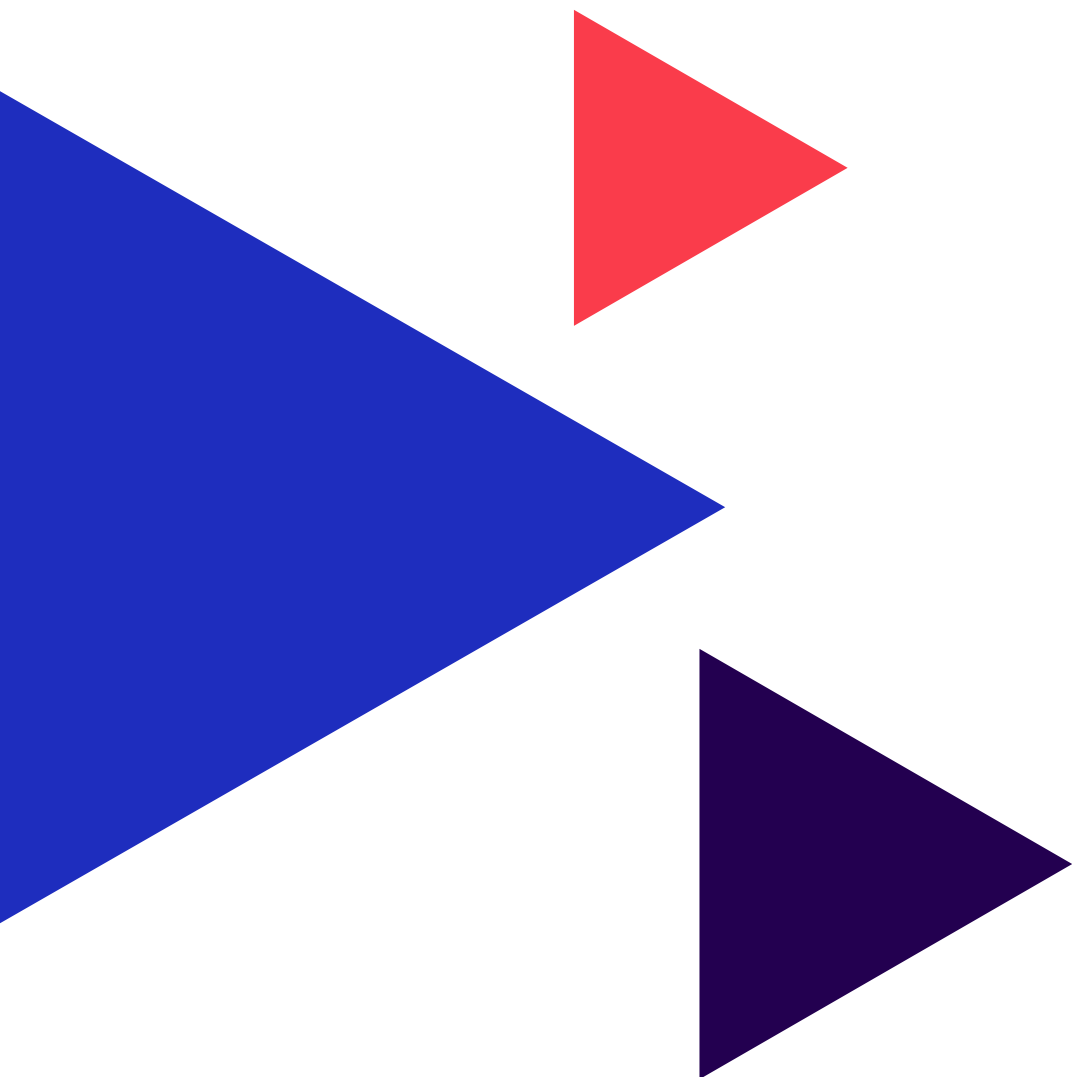
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# Abbreviations and acronyms

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<b>CPF</b>	Central Provident Fund (Singapore)
<b>EDB</b>	Economic Development Board (Singapore)
<b>GDP</b>	gross domestic product
<b>ICLS</b>	International Conference of Labour Statisticians
<b>KLSI</b>	Korea Labour and Society Institute
<b>MITI</b>	Ministry of International Trade and Industry (Japan)
<b>NTUC</b>	National Trade Union Congress (Singapore)
<b>NWC</b>	National Wages Council (Singapore)
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>SMEs</b>	small- and medium-sized enterprises

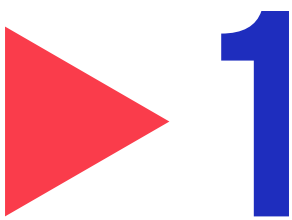
# Acknowledgments

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The present document is the final deliverable of a consultancy contract between Pauline Debanes and the ILO Regional Office for Asia and the Pacific. The aim of this research was to draw lessons from the experiences of Japan, the Republic of Korea and Singapore in transitioning out of an informal economy that can benefit developing economies in Asia and the Pacific.

This report was coordinated and edited by Pauline Debanes. Chapters were written independently by César Castellvi (Japan), Pauline Debanes (Republic of Korea, Introduction and Conclusion) and Monica Dwiyanti (Singapore). Sébastien Lechevalier has provided his expertise by reviewing all the sections of the report.

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# Introduction

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**The COVID-19 pandemic has led to increased attention being paid to the costs of having a large informal economy, and has heightened the prioritization within national agendas of strategies aimed at accelerating the formalization of informal economies.**

The spread of COVID-19 worldwide and the impact felt in terms of lost jobs, reduced working hours and income losses has reiterated the relevance of the Decent Work Agenda promoted by the ILO since the late 1990s, acknowledging that improving job quality and social protection are key to more balanced and sustainable economic development.<sup>1</sup> The pandemic outbreak in 2020 has exposed the vulnerabilities of households across the world, especially in countries with a scattered and partial social protection. Workers in the informal economy<sup>2</sup> have been more vulnerable than those in formal work arrangements during the current crisis, given that workers in the informal economy cannot work remotely, tend to work in sectors affected by containment measures, and lack an income buffer to absorb shocks (ILO 2020a). Two groups of workers are particularly at risk within the informal economy: women and migrant workers, who both tend to be over-represented in high-risk sectors.<sup>3</sup>

The pandemic outbreak has had a strong negative impact on Asia and the Pacific (ILO 2021, 67). The region experienced a contraction in GDP of 2.2 per cent in 2020, the first recession since the 2008 global financial crisis. The vulnerability of the region's economy in the current crisis stems from several factors, including sectoral

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1 The Decent Work Agenda has four pillars: employment creation, social protection, rights at work, and social dialogue. The agenda became part of the new 2030 Agenda for Sustainable Development in 2015 (Goal 8).

2 Informal economy is here defined as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements”. See the “Concepts and definitions” box in Section 3 below.

3 Women experience the larger negative change of employment, especially those who are contributing family members, see ILO 2020b, 37.

specialization, a lack of development of the health sector, and the inefficiency of the vaccination programmes and containment measures put in place. Yet another factor that has greatly increased the vulnerability of the region to workers being thrust into poverty due to COVID-19-related income losses has been the large size of the informal economy in many countries.

### **Informality is an important aspect of lingering decent work deficits in Asia and the Pacific.**

Despite being a region with one of the highest economic growth rates since the 1970s, most countries in Asia and the Pacific have failed to provide decent work conditions for much of their populations. One outcome is the continuing high share of informal employment. Two-thirds (67 per cent)<sup>4</sup> of the regional workforce were still engaged in informal employment in 2019. By subregion, informal employment rates were 50.9 per cent in East Asia, 69.1 per cent in South-East Asia and the Pacific and 87.6 per cent in South Asia (ILO 2021, 67). The high rates are especially striking in the latter two subregions, as rapid economic growth and productivity gains have not proven a sufficient impetus for formalization or improvements in labour standards.

Countries in the region are not converging towards the goals set by the 2030 Agenda (ILO 2020b).<sup>5</sup> Indeed, while working poverty was decreasing (until the COVID-19 pandemic), wages remain low in the region, half of the population is not covered by social protection and income inequalities are rising. The socio-economic trends in the region over the last few decades point to uneven development, and thus have undermined the once optimistic (even teleological) view that the countries in Asia and the Pacific, especially those of East and South-East Asia, would follow the Japanese growth model like flying geese (Blomqvist 1996). While some East Asian economies like Hong Kong (China), Republic of Korea, Singapore and Taiwan (China) succeeded in the 1960s and 1970s to achieve “growth with equity”, the current emerging economies in the region continue to struggle to get beyond general progress in poverty reduction to a more consistently inclusive and sustainable growth (World Bank 2019).

### **Japan, the Republic of Korea and Singapore – Development models or remnants of an inimitable lost era?**

This report aims to provide a historical account of the critical factors that have enabled the labour market formalization pathways in Japan, the Republic of Korea and Singapore in the post-war period, and to draw lessons, where possible, for the emerging economies of today. These three countries experienced their “golden age” in the post-war period, from 1950 to 1970 in Japan and from 1960 to 1980 in the Republic of Korea and Singapore; where rapid economic growth went hand-in-hand with industrial upgrading, rising productivity and broader social development. The structural change from agriculture to manufacturing, already advanced at the time in Japan, was just starting in the Republic of Korea and Singapore. The development of large-scale manufacturing firms facilitated the absorption of day labourers into formal contract arrangements. In addition, the shortage of skilled workers in those years, combined with extensive industrial policies (and monitoring) by government, created a system of protected employment with on-the-job training and skilling built in. As a result, firms were incentivized to retain the workers they had trained.

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4 Informality rate in 2019, as per ILO 2021, 67.

5 Social Development Goal (SDG) indicators include: unemployment rate, working poverty, average hourly wage, social protection coverage, informal employment share, temporary employees share, not in employment, education or training (NEET) share, labour productivity, labour income share, inequality measured as the proportion of persons living on income below 50 per cent of the median income.

Table 1 shows the substantial annual growth of exports in the three countries, exports as a share of gross domestic product (GDP) and GDP per capita. The sustained export orientation and trends in economic growth, productivity gains and manufacturing employment until the 1990s will be unraveled in detail in Section 3 in the search for linkages to formalization.

► **Table 1. Export and economic growth 1960–2018**

Country	1960–79	1980–99	2000–18
<b>Exports of goods and services (% of GDP)</b>			
Republic of Korea	13.7	28.4	41.3
Japan	10.4	11.0	14.8
Singapore	137.2	172.1	196.6
<b>Average annual growth of exports (%)</b>			
Republic of Korea	28.1	12.9	8.0
Japan	16.0	5.6	4.8
Singapore	10.3	11.2	7.2
<b>GDP per capita (end of period, 2010 constant US\$)</b>			
Republic of Korea	3 799	14 252	28 158
Japan	25 340	41 098	48 766
Singapore	12 448	31 587	59 261

Source: Calculations by the authors based on data from the World Bank's World Development Indicators database. Data for Japan 1960–69 are from the Penn World Table, version 10.0, at current national prices (coherent with the subsequent periods).

While industrialization and increasing formalization of the labour force went hand-in-hand in developing Japan, the Republic of Korea and Singapore, the newly developing economies in the region are characterized by “compressed development” (Whittaker et al. 2020), which is likely to impede their employment formalization pathways. Indeed, their economic development happens faster than in previous eras, but they are also experiencing the flaws of advanced economies more rapidly, such as deindustrialization. Moreover, the historical context of these newly developing economies is significantly different from the one experienced by the now advanced economies, both politically and in terms of the difficulties of gaining governance over value chains.

Signals point to the impossibilities of replicating an East Asian development model. Nonetheless, the hope is that in generating a comparative analysis of the historical formalization pathways in Japan, the Republic of Korea and Singapore, specific enabling institutional settings can be identified that might be replicable and put into practice in emerging economies hoping to accelerate the closing of formality gaps.

## Research questions and methodology

The report focuses on the pathways from informality from the early 1900s to the 1980s in the three countries, reserving the trends across more recent decades for further studies. Specifically, the following research questions are addressed via the three case studies:

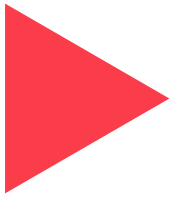
- ▶ How did the States manage to take on a leading role in harnessing the private sector to provide formal labour arrangements during industrialization?
- ▶ How have the formalization pathways been shaped by manufacturing labour and, later on, by their insertion into global value chains?
- ▶ What has been the contribution of women and migrants in the formalization pathways?

The latter focus is in reaction to recent literature which argues that the “genderized” division of labour contributes to the perpetuation of informal labour markets. Similarly, foreign migrant workers have also predominantly been integrated into the informal economy, altering formalization pathways.

The case studies were built upon an in-depth desk review of relevant academic literature and reports related to the three countries’ historical formalization initiatives and approaches. In addition, the labour dynamics within each country are described using statistics that are publicly available from the ILO, the World Bank and national labour surveys. Moreover, interviews with labour specialists and government bodies were conducted.

## Structure of the report

The remainder of the report is structured as follows: Section 2 discusses the literature on the Asian model of development and the connection between development and formalization; Section 3 examines the available data on informal employment to set the scene for the three country case studies that follow in Section 4. Finally, Section 5 summarizes the main findings and lessons are drawn in Section 6.



# 2

## Literature review

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### Asian pathways to development

The East Asian model has been conceptualized within the “developmental state” framework, derived from the analysis of post-war Japanese development. After the experience of Japan described by Chalmers Johnson (1982), institutionalist and political economy scholars have examined the experiences of the Republic of Korea, Taiwan (China), Hong Kong (China) and Singapore as typical cases in which strategic industrial policies of the State played a decisive role in rapid industrial upgrading (Amsden 1989; Wade 2004; Woo-Cumings 1999; Haggard 2000; Debanes and Lechevalier (eds) 2014). Some common characteristics have been identified: export-orientation industrial policies, an autonomous bureaucracy and a tight relationship between government and large companies. This framework has provided the theoretical ground for many comparative empirical studies discussing the possibility of developing countries adopting similar policies to East Asian countries or transforming their own institutions to upgrade industrial and living standards (Wade 2010).

To give more conceptual space to labour market dynamics, the developmental state framework can be enriched by the comparative capitalism perspective. The latter provides another fruitful institutional approach for examining national political economy trajectory through a focus on the diversity of institutional configurations (Amable 2003). The seminal contribution of *Varieties of Capitalism* (Hall and Soskice 2001) has marked the comparative capitalism agenda by coining a simple dual analytical concept of liberal market economies and coordinated market economies. In the former, firms tend to achieve coordination by market mechanisms; while firms resort to non-market mechanisms in the latter. In coordinated market economies, the provision of long-term-oriented capital, inter-firm networks, intra-firm organization, and the labour market determine the strategic behavior of firms (Hall and Soskice 2001, 16). Most East Asian countries tend to be of the coordinated market economy type; especially in the case of Singapore, where a strong coordination by the State is combined with the features of a corporate sector and labour market close to the liberal market economy type. Nowadays, the comparative capitalism research agenda is more focused on analysing the diversity of capitalism that encompasses more than two ideal types and considers other central actors besides the firms.



Asian countries have been compared within this framework with promising insights on the evolution of institutional settings in the region. These analyses underline not only the standard features stemming from a shared historical legacy and a growing regional economic and political integration but also the specificities that have emerged over time. In this context, it is especially interesting to pinpoint the variations in the role of the State, the political system or the corporate governance by family-owned business groups (Carney et al. 2009; Boyer, Uemura, and Isogai 2012; Walter and Zang 2012; Storz et al. 2013; Witt and Redding 2014).

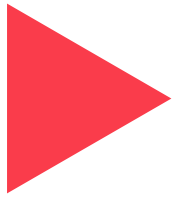
It is usually emphasized that the Japanese political economy, up until the 1990s, was coordinated through state industrial policies, the structure of firms as large conglomerates with vertical integration, and a bank-based system (Amable 2003; Amable 2015; Walter and Zhang 2012). However, the lost decades of the 1990s, the banking crisis of 1997 and the liberalization “big bang” of 1998 have enabled gradual but significant institutional change, especially in the labour market, the financial system and the corporate sector (Hoshi and Kashyap 2004; Aoki, Jackson, and Miyajima 2007; Tiberghien 2007; Lechevalier 2014; Lechevalier, Debanes, and Shin 2017). As a result, the Japanese institutional configuration has neither converged towards the Anglo-American model nor remained static (Lechevalier 2011, 333). The expansion of the analyses to other economies has brought forward a similar conclusion: whereas traditional features of the institutional configurations have been dismantled under globalization and financial neoliberalism, they have not converged towards the United States of America or European configurations, and various patterns are emerging within the region (see Walter and Zhang 2012; Harada and Tohyama 2012; Witt and Redding 2014; Storz et al. 2013).

### **Economic growth and the informal economy**

The relationship between economic growth and the informal economy is complex and widely debated. A study by the Organisation for Economic Co-operation and Development (OECD) and the ILO in 2019 showed that the prevalence of informality tends to go down as economic and social development measures go up (OECD and ILO 2019, 46). However, the impact of economic growth on informality is widely contested. Some authors such as Loayza (1997) and Johnson, Kaufmann, and Shleifer (1997) associated higher informality with lower growth; while the others like Elgin and Birinci (2016) suggested a complex and dynamic inverted-U relationship between GDP per capita and the size of the informal sector. Adding to the complexity, Duarte (2017) used Spain as an example and found that different informality estimation methods lead to contradictory evidence on the relationship between informality and GDP.

The sectoral composition of economic growth appears to be an essential factor in the formalization storyline, although here also there are other factors at play (OECD and ILO 2019, 17). In some countries, growth strategies allow the formal sector to absorb more informal workers (ILO 2007, 10). The agriculture and service sectors have a strong relationship with informality, but there is no clear association between manufacturing and informality. Indeed, the higher the share of agriculture and forestry in a country's value-add, the higher the rate of informal employment. This can be explained by the fact that production, collection and processing in agriculture and forestry are usually done by contributing family members and the self-employed (La Porta and Shleifer 2014).

Conversely, overall, the higher the share of services in the value-add, the lower the rate of informal employment. However, this depends on the level of productivity in the service sector. Informal employment is correlated with low-productivity service activities; while formal employment prevails in higher productivity service activities. As for the manufacturing sector, firms are more likely to be registered, and as firm size and productivity grow, they tend to use more formal labour arrangements (La Porta and Shleifer 2014). However, there may be a proliferation of informal activities in manufacturing like sweatshops, outsourced/subcontracted work and unlicensed factories linked to global value chains (OECD and ILO 2019, 50).

 3

## Informal employment trends in Japan, Republic of Korea and Singapore

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While formal work arrangements with regular contracts and associated benefits have been the norm in most post-war high-income Western economies, self-employment and temporary jobs have been historically the main form of labour in Asia and the Pacific (Nguyen, Nguyen-Huu, and Le 2016). Informal work arrangements are characterized by insufficient social protection, poor coverage by social dialogue and limited access to fundamental rights (ILO 2013, 6). The high shares of informal employment in Asia and the Pacific were highlighted already in Section 1 above.

It is not a straightforward exercise to get a sense of the size of the informal sector in the three focus countries of this report, since the measure of informal employment, as defined in accordance with the guidelines of the 17th International Conference of Labour Statisticians (ICLS) (see box 1), is not available. In the absence of these statistics, two proxy measures can be examined:

- i. **vulnerable employment**, which is the sum of two employment status categories – own-account workers (that is, the self-employed) and unpaid family workers; and
- ii. **non-regular employment**, defined as paid workers who are subcontracted or dispatched or who do not work full-time with a permanent contract.

Data on the latter proxy are available for Japan and Republic of Korea only.

► **Box 1. Concepts and definitions**

**Informal economy** “refers to all economic activities by workers and economic units that – in law or practice – not covered or insufficiently covered by formal arrangements” (Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), Para. 2(a)).

**Informal employment** refers to “all remunerative work (i.e. both self-employment and wage employment) that is not registered, regulated, or protected by existing legal or regulatory frameworks, as well as non-remunerative work undertaken in an income-producing enterprise. Informal workers do not have secure employment contracts, workers’ benefits, social protection, or workers’ representation” (Guidelines Concerning a Statistical Definition of Informal Employment, 17th ICLS).

**Informal sector** refers to “a group of production units comprised of unincorporated enterprises owned by households, including informal own-account enterprises and enterprises of informal employers (typically small and non-registered enterprises)” (15th ICLS).

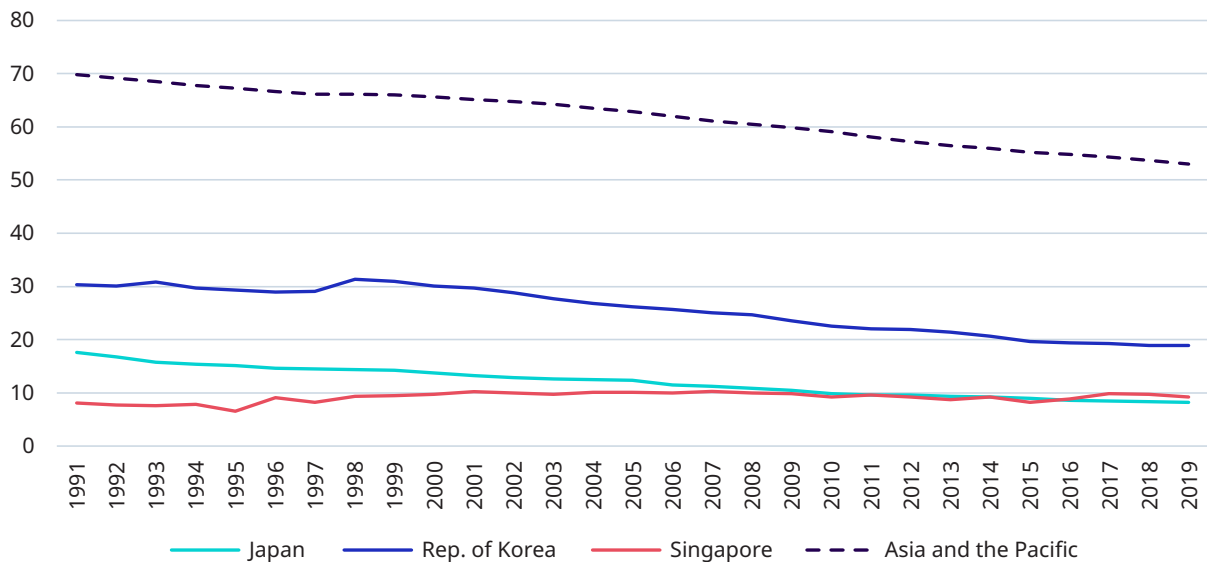
**Vulnerable employment** aggregates the two statuses of own-account workers and contributing family workers. It is used as an approximation for informal employment when more accurate statistics are not available (ILO 2018).

**Non-standard/regular employment** comprises temporary employment, part-time and on-call work, multi-party employment relationships and disguised employment, or dependent self-employment (ILO, n.d.-a; ILO 2016).

**Standard/regular employment relationship** refers to employment that is full-time, indefinite and part of a subordinate relationship between an employee and an employer.

Figure 1 shows the trends in vulnerable employment for the three countries between 1991 and 2019. Compared to the regional average across Asia and the Pacific (53 per cent in 2019 against 70 per cent in 1991), the three countries have significantly lower shares of vulnerable employment across the whole period. Japan achieved a rate of vulnerable employment below 10 per cent as of 2009, after a steady decline from nearly 18 per cent in 1991. Vulnerable employment remains significantly higher in the Republic of Korea compared to the other two countries, although shares have been on a declining trend since 1991. The higher rate of vulnerable employment in the Republic of Korea reflects the stable share of own-account workers and daily workers over time, as well as a remaining relatively important share of unpaid women family workers. The share of workers in vulnerable employment was around 30 per cent in the 1990s and reached 19 per cent in 2019. The vulnerable employment rate in Singapore was the lowest of the three countries until 2016, when it surpassed that of Japan. The trend in Singapore has been slightly increasing over the 29-year period.

► Figure 1. Vulnerable employment 1991–2019, total (% of total employment)



Note: Data for Singapore refer to national residents.

Source: Vulnerable employment, total (% of total employment) (ILO modelled estimates), ILOSTAT. Retrieved August 2021.

However, these comparatively low estimates of vulnerable employment in Japan and the Republic of Korea minimize the portrait of informality, since certain categories of non-regular paid employment should also be considered. Although non-regular workers (temporary and daily workers) are mostly covered by formal labour arrangements in both countries (unlike in many developing countries with less developed labour laws and institutions of labour governance), such workers are systematically disadvantaged compared to regular employees. They receive lower wages and bonuses, and are restricted in their access to social security provisions.

As put by Whittaker et al. (2020a, 149), there is a trend of non-regular employment being “layered onto existing labour market informality”, a circumstance that is increasingly common in advanced and developing economies alike. In Japan, non-regular employment encompasses temporary and daily employment contracts; they experience lower wages and fewer benefits (Peng 2012; Cooke and Jiang 2017). In Republic of Korea, non-regular workers are defined broadly as temporary and daily workers excluded from social insurance schemes, and they experience discrimination in wages and working conditions (Eun 2010). Table 2 shows the evolution of vulnerable employment and paid employment according to regular and non-regular statuses since the 1960s. In both cases, the share of regular employees has increased significantly, but still only reached half of the workforce in the Republic of Korea in 2017, while it stood at 83 per cent in Japan.

As for Singapore, the low vulnerability rate of the resident workforce hides the hardship faced by non-resident workers, which represented 34 per cent of the labour force at the end of 2020 (table 3).<sup>6</sup> Non-resident workers come mainly from South and South-East Asia (including migrant domestic workers) and are concentrated in low-wage jobs, with legislation strictly regulating their working permits and preventing them from settling in or bringing family members (Bal 2017). Non-resident workers are much more likely than resident workers to engage in self-employment and other categories of informal employment.

6 In the Singaporean context the term “resident” refers to Singaporean citizens and foreign nationals who have been granted permanent residency only. Hence, most of the workers considered to be “non-residents” are actually living in Singapore but do not have either citizenship or permanent residency status.

A final point worthy of attention is the over-representation of women in the informal economy, notably, because they are more likely to work in the low-productivity end of the service sector, have a temporary contract and be contributing family workers. To illustrate further the vulnerability of women workers in the three case study labour markets, one can look at the gender wage gaps: Republic of Korea and Japan are the two countries with the highest gender wage gaps among OECD countries, at 32.5 per cent and 23.5 per cent in 2019, respectively (OECD, n.d.). By comparison, the gender wage gap for residents in Singapore was 12.5 per cent in 2018 (Hoffmann 2019), which is below the OECD baseline.

► **Table 2. Employment by status in Japan and Republic of Korea, 1963, 2000, 2017 (%)**

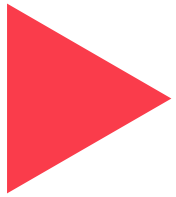
Year	Vulnerable workers			Wage and salaried workers			
	Total	Own-account workers	Unpaid family workers	Total	Regular employees	Temporary employees	Daily workers
<b>Japan</b>							
1963	42	21	21	58	51	3	3
2000	17	11	5	83	73	9	2
2017	10	8	2	89	83	5	1
<b>Republic of Korea</b>							
1963	68	37	31	32			13
2000	37	28	9	63	30	22	11
2017	25	21	4	75	50	19	6

Source: Japan Labor Survey; Statistics Korea, Economically Active Population Survey.

► **Table 3. Non-resident workers in Singapore by sector, 2001, 2010, 2020 (% of total employment)**

Year	Total	Manufacturing	Construction	Services
2001	30.9	60.5	66.2	21.7
2010	35.2	50.9	71.2	25.6
2020	34.2	46.6	71.3	26.8

Source: Administrative Records and Labour Force Survey, Ministry of Manpower, Manpower Research and Statistics Department.

 **4**

# Case studies on development and formalization

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## 4.1. Japan

### 4.1.1. Introduction

Japan was the first East Asian country to experience strong industrial economic development, starting in the end of the nineteenth century. During the second half of the twentieth century, the country found itself in a position of regional and then global leadership, notably reaching the point of having the world's second-largest economy in 1968. This particular situation has long made the country a kind of model for other Asian economies.

The main stages of the country's economic (and labour market) development have been grouped for the purpose of this study as follows:

- **1918–55:** The Japanese labour market was diverse, with the majority of jobs in the agricultural and fishing sectors and among small businesses. While labour regulation was almost non-existent and the development of trade unions was hampered by restrictive order protection laws, the formalization of the labour market developed through employment practices designed within the administration and put into practice by the executives of the large industrial groups (zaibatsu) who participated in the industrial expansion of the country and in the construction of the Japanese empire. Women remained an important part of the labour force and were dominant in the textile industry, which was the main industry at the beginning of the century. This situation persisted until the reconstruction years at the end of the 1940s. Under the influence of the American occupation, the democratization of society allowed for the adoption of several laws that are still the basis of worker protection today.

- **1955–85:** This period was marked by double-digit economic growth, boosted by booming domestic demand and industrial policies that supported the transition of Japan as a major exporting country. The situation contributed to a strong expansion of industrial employment. Company managers succeeded in curbing social unrest by offering a high degree of job protection and career paths to all employees, white-collar and blue-collar alike. The managerial practices of the period stabilized a Japanese employment model that was open only to male workers. Women participation in the labour market ebbed as the “housewife model” developed. This model, often referred to as the “post-war model”, contributed to the reduction of informal employment and persisted until the end of the 1980s.
- **1985–2020:** The 1990s saw a sudden end to the period of growth for the Japanese economy and reinforced the industrial decline of Japan. At the same time, deregulation and the legalization of temporary employment coincided with the expansion of the service sector and also with the return of women to the labour market. The gradual increase in non-regular work has contributed to the adoption of regulations to supervise these new forms of employment.

#### 4.1.2. Economic development through industrialization in pre-war Japan

Meiji Japan (1868–1912) corresponds to the entry of Japan into the market economy. It was a period of rapid political, economic and social transformations where Japan was industrializing at high speed and where innovations in the world of work were being driven by the adoption of technology imported from abroad and trial and error on the job.

The first land reform in Japan corresponds to the abandonment of feudalism with the adoption of the Japanese Land Tax Reform (chiso kaisei) in 1873. It established for the first time a right of land ownership for peasants, and set up a taxation system that would allow the new State to increase its tax revenues. The land reform freed up agricultural labourers and led to an exodus of workers to cities in pursuit of work in the expanding industrial sector. The industrialization of the country was largely driven by the zaibatsu, large family-owned conglomerates that were supported by the Government until the end of World War II. The major industrial fields of the time were textiles followed by mining and metallurgy (Gordon 2020, 97).

The rapid industrialization of Japan during the period was thanks to the large degree of participation of women in factory work (table 4). This was particularly the case in the major industrial fields of the time such as textiles and the chemical industry. Men were more present in shipbuilding, machine production and the mining sector.

► **Table 4. Number of employees in Japan’s industrial sector by sex, 1902 and 1911**

Sector	1902		1911	
	Women	Men	Women	Men
Textiles	236 457	32 699	408 257	67 128
Machine/tool manufacturing	983	33 379	3 817	67 271
Chemical engineering	43 683	38 615	22 414	47 159
Food and drink	13 316	16 837	12 922	34 202
Miscellaneous	11 579	20 279	20 123	37 831
Electric or gas utilities	21	475	40	4 476
Mining and refining	7 230	42 888	8 924	59 321
<b>Total</b>	<b>313 269</b>	<b>185 622</b>	<b>476 497</b>	<b>317 388</b>

Source: Gordon 2020, 100.

The formalization of the labour market is largely related to the development of industry and of large-scale enterprises. However, it should be remembered that until the late 1950s, the industrial sector was far from being the main source of employment in Japan. In fact, the majority of workers were concentrated in small businesses until the end of the war. It was an extremely diverse sector centred on the small family business model. In the cities, such businesses were generally retailers and small manufacturers. In rural areas, these businesses were farms, and in coastal areas, fishing boats. In 1935, small businesses represented 44.3 per cent of the country's workforce (Woodiwiss 1992, 47).

There are three reasons why this form of traditional employment remained prominent in the early twentieth century. First, "modern" enterprises were only present in certain markets considered priorities by the State (heavy industry, mining, defense and all the core business of the *zaibatsu*), but did not produce everyday consumer goods. Second, there was no real competition between modern enterprises and small businesses. For this reason, the managerial innovations that emerge in modern firms were slow to spread to small businesses, where self-employment was still the norm. Third, because of the limited development of trade unions, wage differentials in modern firms and traditional small businesses were not high enough to justify a real transition (Woodiwiss 1992). This importance of small businesses as a source of employment persisted after the war until Japan entered its period of high economic growth.

### Selective formalization takes form

During the first decade of the twentieth century, there was no regulation of work and its organization. The first voted law was the Factory Act (*kōjō hō*) in 1911, which regulated the employment of women and children in industry, with rules on hiring, working hours and minimum protection (Japan, Ministry of Health, Labour and Welfare 2016). The Law did not apply to adult male workers (Chimoto 2008).

The main problem facing governments and industrial groups at the time was the high mobility of workers. Male workers tended to change factories regularly according to their economic needs (Gordon 2020, 103). To recruit workers, factory managers used intermediaries called *oyakata*. It was through these intermediaries that work contracts were negotiated and wages paid (Thomann 2005, 13). Rather than regulating these intermediaries, the government nationalized existing private organizations (Kambayashi 2013). The Employment Placement Act (*shokugyō shōkai hō*) was enacted in 1921, and a subsequent reform of the law in 1938 established a state monopoly on worker placements that lasted until 1997.

The question of stabilizing labour supply also arose for skilled workers. In order to solve this problem, large companies developed employment practices aimed at preventing turnover. The development of internal training systems led large companies to choose to keep their employees as long as possible so that the initial investment remained profitable. In parallel with the adoption of this long-term employment relationship, companies began to set up systems of salary gradation, insurance and pension funds. The seniority promotion system was built in this context. These managerial innovations allowed for the stabilization of a skilled male workforce in large companies around the 1920s (Thomann 2005, 16). Thus, as the formalization process started with skilled workers at the upper echelon of the labour market, the formalization process can be described as being "selective".

Concerning industrial relations, although Japanese workers officially had the right to form trade unions, in practice their development was limited until the end of World War II. The main reason for this was the existence of the Peace Preservation Law (*chian iji hō*) (1925), which led to strong repression of workers' gatherings (Kambayashi 2017, 9).



### 4.1.3. Post-war reconstruction and the birth of the Japanese economic model

At the end of World War II, the level of destruction suffered by Japan forced the country to go through a period of reconstruction of both its factories and infrastructure. Japan will initially benefit from the support of the United States. The Dodge Plan (the Japan equivalent of the Marshall Plan) in 1949 and the Korean War between 1950 and 1953 allowed Japanese industry to restart. In 1955, the stabilization of prices and the beginning of a period of inflation will allow the Japanese economy to grow enough to return to the level of development that the country knew just before the war began.

The country's industrial development in the post-war period was driven by heavy industry, which had been strengthened during the period of militarization of the country in the 1930s and then adapted primarily towards electronics and car production from the 1950s in the context of peace (Gordon 2020, 246). At the same time, even though it was an important source of employment for women, the textile industry would gradually go into decline.

#### The reconstruction period set the tone for labour standards

Between 1945 and 1946, under pressure from the Supreme Commander of the Allied Powers, Japan launched a land reform programme in order to restore the balance of economic power in rural Japan. By expropriating large landowners and redistributing the land to farmers, this programme contributed to the creation of many small family farms (Gordon 2020, 231). After the dismantling of the *zaibatsu* because of their responsibility in the militarization of Japan, reforms were launched to democratize industrial relations. This context will lay the foundations for the transformations that will take place starting in the country's future period of high economic growth. At a symbolic level, the creation of the Ministry of Labour dates back to 1947 (Garon 1984). Beginning with the enactment of the Trade Union Act (*rōdō kumiai hō*) in 1945, the construction of an institutional framework that fully authorized unions would initiate a reduction in inequalities between company managers and workers that would continue for the next several decades.<sup>7</sup> This first law was quickly supplemented in 1946 by the Labour Relations Adjustment Act (*rōshi kankei chōsei hō*). The aim of which was to regulate labour disputes by setting up labour relations commissions (*rōdō iinkai*) in charge of relations between unions and employers. The Labour Standards Act (*rōdō kijun hō*) of 1947 provided the first framework for working conditions for all workers by establishing rules on working hours, health and safety, and wages.

Following the introduction of this legislative framework, the end of the 1940s was a period of strength for the workers' movement.<sup>8</sup> Faced with strikes and a difficult economic situation immediately after the war, company managers initially gave in to the union movement (Gordon 2020, 235). However, the context of the Cold War and the resulting "red purges" contributed to undermining this movement. It should also be remembered that the wage struggle led by Japanese unions had long focused on the situation of regular employees. Non-regular employees and workers in the informal sector benefited less from innovations around labour protection.

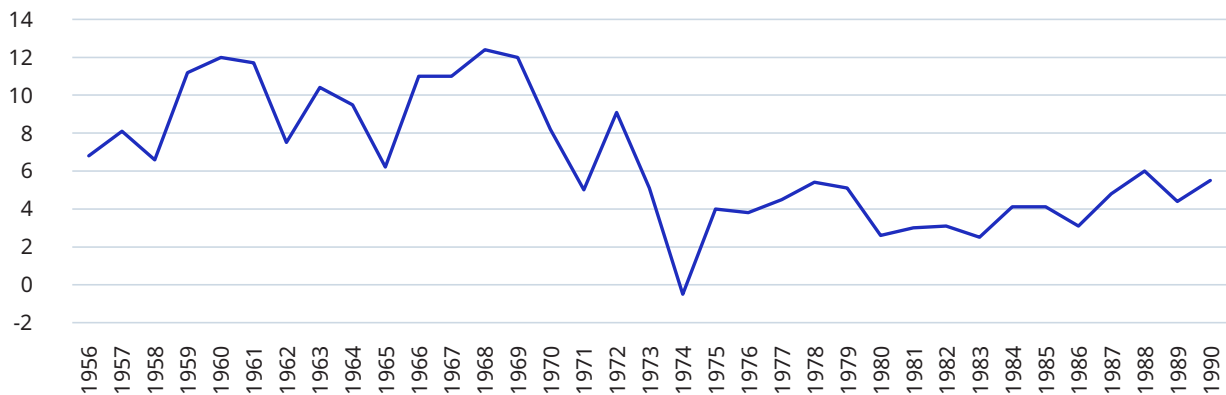
#### Mid-century economic boom and labour shortages further labour protection of enlarged core group

During the two decades between the 1950s and 1970s, Japan experienced the "post-war Japanese economic miracle". The strong growth, averaging 9 per cent per year during the 1960s (figure 2), was driven by a general increase in the standard of living, a boom in the consumption of household appliances and a boom in exports, which allowed Japan to improve its trade balance and to accumulate a surplus of currency.

<sup>7</sup> The actual law was rewritten and re-voted on in 1949.

<sup>8</sup> The peak of union membership was reached in 1949 with 55.8 per cent of workers being affiliated with a union. Within five years, this rate dropped to 35 per cent and then continued to decline to 16.7 per cent in 2019 (Japan, Ministry of Health, Labour and Welfare, n.d.).

► Figure 2. Japan's annual GDP growth rate, 1956–90 (%)

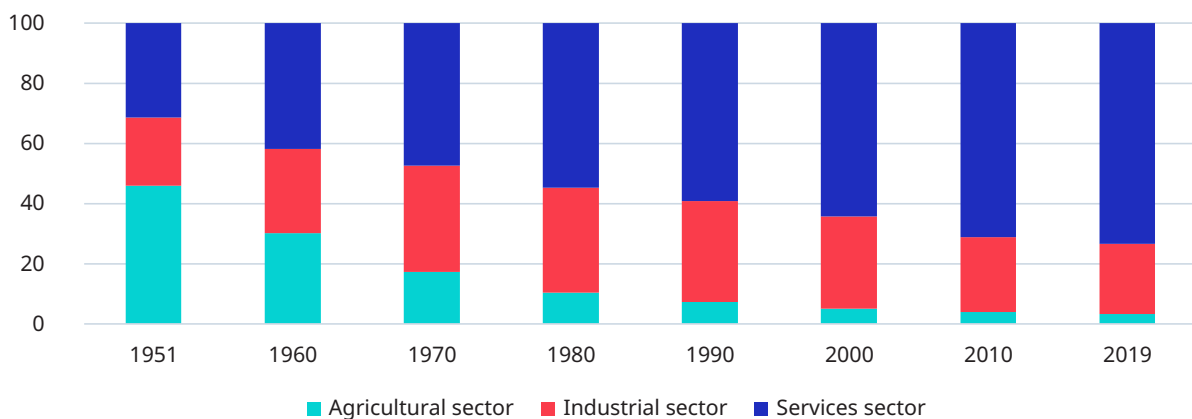


Source: Japan, Cabinet Office, System of National Accounts, Economic growth, n.d.

The industrial policy of the country at the time was marked by a form of state intervention that was directed through the Ministry of International Trade and Industry (MITI). The function of the MITI, established in 1949, was to act as a bridge between the administration and business leaders in order to define priority industrial sectors and to reinforce cooperation between companies deemed strategic for the country (Lechevalier 2014, 76).

During the 1950s, the Japanese labour market was characterized by two forms of segmentation: first, between small- and medium-sized enterprises (SMEs) and large enterprises; and second, between regular and non-regular employees. The period was marked by a labour surplus situation that helps explain why some workers agreed to work under unfavourable conditions in terms of wages and integration within firms (Lechevalier 2003, 164). There was a plethora of workers moving away from the agricultural sector and seeking jobs in industry and services (figure 3). In this context, the use of daily workers was still present in most companies, regardless of their size. It should also be remembered that small businesses were the main source of employment, accounting for almost half of the workforce in 1950 (Minami 1994).

► Figure 3. Employment in Japan by sector, 1951–2019 (%)



Source : Japan, Ministry of Internal Affairs and Communications, n.d.

The 1960s and the economic boom corresponded to the end of the labour surplus, driven by declining birth rates and the development of the service sector. The difficulty of small companies to keep their employees pushed them to increase wages, which finally contributed to reducing the wage differences between large and small companies (Lechevalier 2003, 171).

Among the State's initiatives intended to stabilize employment as a component of the national development strategy was the Employment Measures Act (*koyō taisaku hō*) of 1966. The Act extended employment norms that were first established for skilled employees in large firms in the 1920s and 1930s, including the building of long-term employment relationships, training firms and promotion by seniority. Cooperation between firms and the State was strong during this period of high growth. The relationship with workers was strengthened by the power of company unions, which adhered to the country's industrial objectives in exchange for full employment (Inagami 1995).

From the middle of the 1950s, the practice of "spring bargaining" (*shūntō*) also developed. This was a united campaign by labour unions, led by the industrial unions (Ogino 2021). Organized annually between March and April since that time, this period of negotiations around employee wage upgrades embodied the new form of cooperation between unions (usually internal) and company management. These standards were extended to a wider spectrum of companies through the Japan Productivity Center (*Nihon seisansei honbu*), an organization established in 1955 and at that time attached to the MITI.

Taken together, these characteristics constituted what has been called the **Japanese employment model** (Koike 1996). This system continues to prevail in the country's leading companies. Two features of the Japanese model are especially relevant. First, the institutionalization of this model cannot be explained by the establishment of a specific regulation. It is mainly the result of shared practices. The only exception is dismissal legislation (Lechevalier 2014).<sup>9</sup> Second and still to this day, the benefits brought in the form of secure employment – which spread from managers to include production workers over the period – accrued almost exclusively to men.

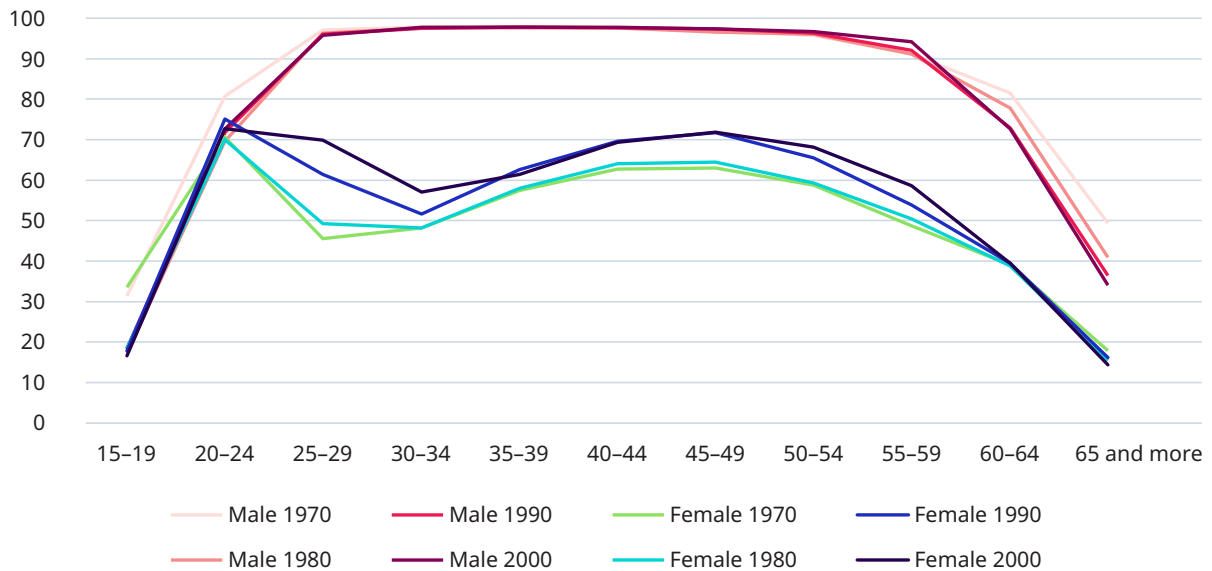
In the early 1950s, women continued to hold a central place in the textile industry, where they represented 55 per cent of the workforce (Gordon 2020, 256). With the industrial transition that took place in the 1960s and the development of the electronics industry, some of the women who originally worked in textiles came to occupy jobs on the television and radio assembly lines. However, in parallel with the widespread adoption of the Japanese employment model and its norms based on male employees, women gradually disappeared from the labour force.

In 1955, the Government promoted the "Association for a New Life" (*shin seikatsu undō kyōkai*) whose objective was the emergence of a middle class centred on the "male bread winner" and the housewife (*sengyō shufū*) as the family model (Garon 1994). This kind of initiative will gradually reinforce the emergence of what will be wrongly called the "post-war family model". The generalization of salary and promotion by seniority in the Japanese employment model played an unfavourable role for women who choose to have a child. In this model, the division of labour in the household is structured around a male employee who is in charge of providing for the family's economic needs and a female housewife who is in charge of domestic duties and child rearing (Ochiai 1997). We will see later that the gradual attenuation of the "M-shaped curve"<sup>10</sup> actually hides another phenomenon, that of the over-representation of women in non-regular jobs (figure 4).

9 In 1974, in a context of crisis caused by the first oil shock, the adoption of the Employment Insurance Act (*koyō hoken hō*) under the aegis of Prime Minister Miki Takeo was supposed to guarantee job stability for regular employees by subsidizing companies that chose to keep their surplus labour force. Paradoxically, one of the consequences of this law was to reinforce the gap between regular employees, who were increasingly protected, and non-regular employees, who do not benefit from this protection (Genda 2003).

10 The M-shaped curve, as seen in the women's participation rate lines in figure 4, reflects women's work patterns that resembles the letter 'M'. Indeed, women's participation rate in Japan since the 1970s peaks in the ages group 20-24 years old and 40-49 years old but drops in between. It is because women tend to leave the labour market after getting married or giving birth (between the ages of 25 and 35) and come back only five to ten years later. This outcome was reinforced by the generalization of salary and promotion by seniority in the Japanese employment model, which favoured male workers and discouraged women to getting back to work.

► Figure 4. Men and women’s labour force participation rates in Japan, 1970–2000 (%)

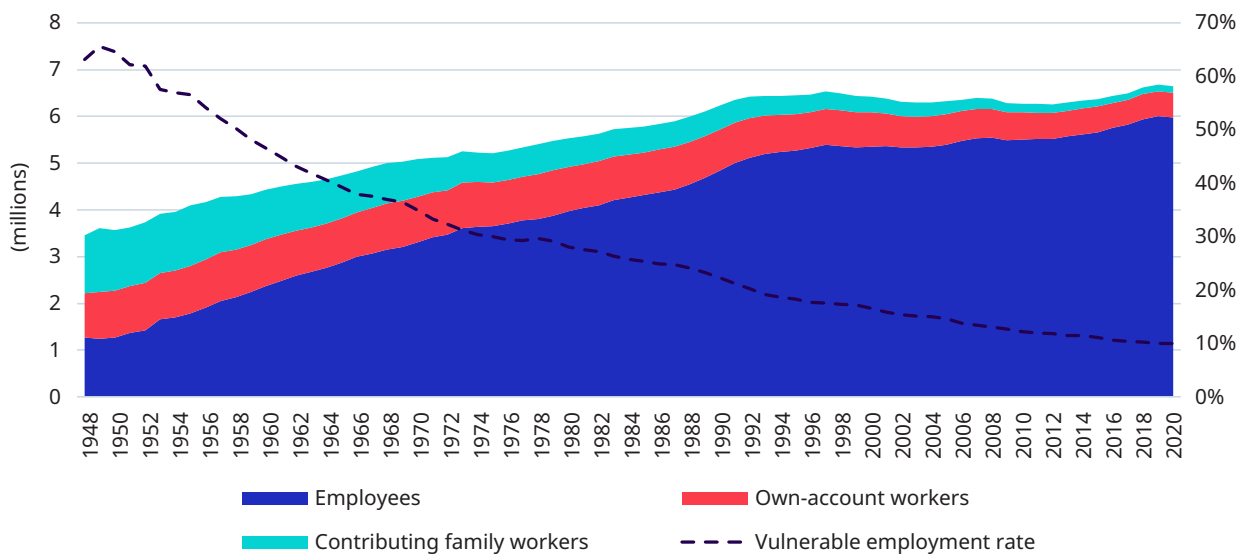


Source: Japan, Ministry of Internal Affairs and Communications, n.d.

The economic boom of the 1960s also corresponds to the decline of the model of the family worker in small businesses that had dominated the first part of the twentieth century and that constituted the core of informal employment. Workers became wage earners who worked outside the home. The available data allow us to go back to 1948 (figure 5).

For Japan, in order to determine the proportion of informal workers in the Japanese labour market, two categories must be considered: own-account workers (*jieigyō*) and contributing family workers (*kazoku jūgyōsha*) (Kambayashi 2017). The two categories together constitute vulnerable employment, used here as an indirect proxy of informal employment. At the end of World War II, vulnerable employment represented more than 60 per cent of employment in the country. This share did not fall below 50 per cent until the end of the 1950s (during the high growth period). On this last point, it is necessary to recall that Japanese statistics do not yet allow one to measure non-regular employees, a category of paid employees that also face a degree of vulnerability, even if they still have an official attachment based on an employment contract and a legal recognition of their status as employees, as will be discussed further below.

► **Figure 5. Employment by status in Japan, 1948–2020**



Note: The data shown are the only ones available that give an indication of informal employment in Japan. More detailed data on regular and non-regular paid workers are presented below.

Source: Japan, Ministry of Internal Affairs and Communications, n.d.

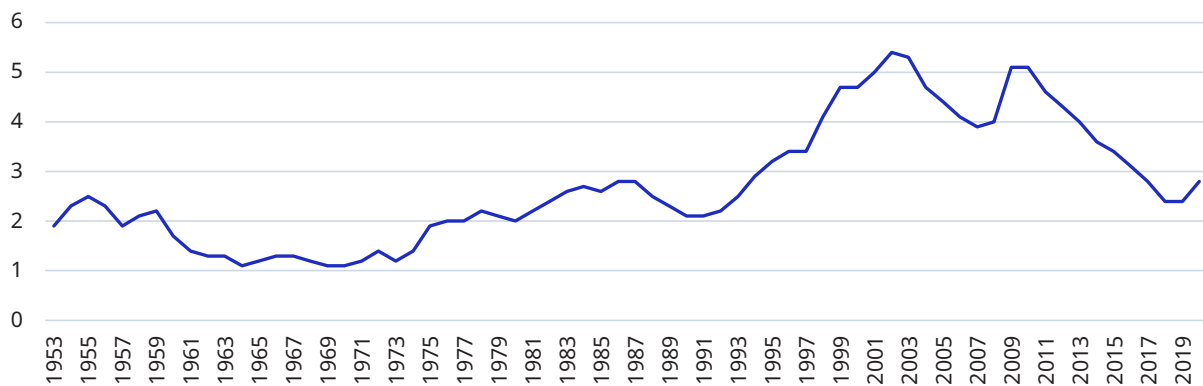
In 1963, the parliament enacted the Commercial Registration Act (*shōgyō tōki hō*). This law pushed the large number of small businesses to register in exchange for tax benefits such as salary deductions for family-member directors (Kanzaki 2015). One can hypothesize that the more systematic registration of small businesses and their workers also played a beneficial role in the reduction of informality in Japan in the post-war years.

#### 4.1.4. Broadening the base of worker benefits and protection

Japan's economic bubble burst in the 1990s, leading to a long period of low growth and economic recession, generally referred to as the "lost decade". The bad debts accumulated since the bubble period contributed to the bankruptcy of major players in the banking sector, and the arrival of new players in the production of consumer goods, notably China, brought challenges for the industries that had paved the way for the country's economic transformation in the 1960s. The second half of the 1990s was marked by a rise in unemployment, which reached its highest level in 2002 at 5 per cent (figure 6).

Weak growth continued in the 2000s, exacerbated by the global financial crisis of 2009 and the official start of the country's population decline (dated from 2007). Temporary workers in the automotive and electronics sectors were particularly affected. After a period of turbulence up until 2011 marked by an unfavourable international context and the Great Tōhoku Earthquake in March of the same year, the economy regained some strength starting in 2014. The return of Abe Shinzō to power in 2012 was marked by a fiscal policy (called "Abenomics") based on three points: fiscal stimulus measures, a monetary policy conducive to exports and structural reforms supposed to stimulate growth. Among these structural reforms were some directly related to wages and employment.

► Figure 6. Unemployment rates in Japan, 1953–2020 (%)



Source: Japan, Ministry of Internal Affairs and Communications, n.d.

### The overwhelming increase in non-regular employment

From the 1980s onwards, several liberal reforms adopted by successive governments led to a strengthening of the segmentation of the labour market (Lechevalier 2014). Previously considered one of the explanations for the economic miracles of the 1960s, the Japanese employment model and its main features (lifetime employment and the seniority promotion system) were pointed to as deterrents to the country's economic recovery, particularly because of the cost they represented for companies (Jacoby 2004).

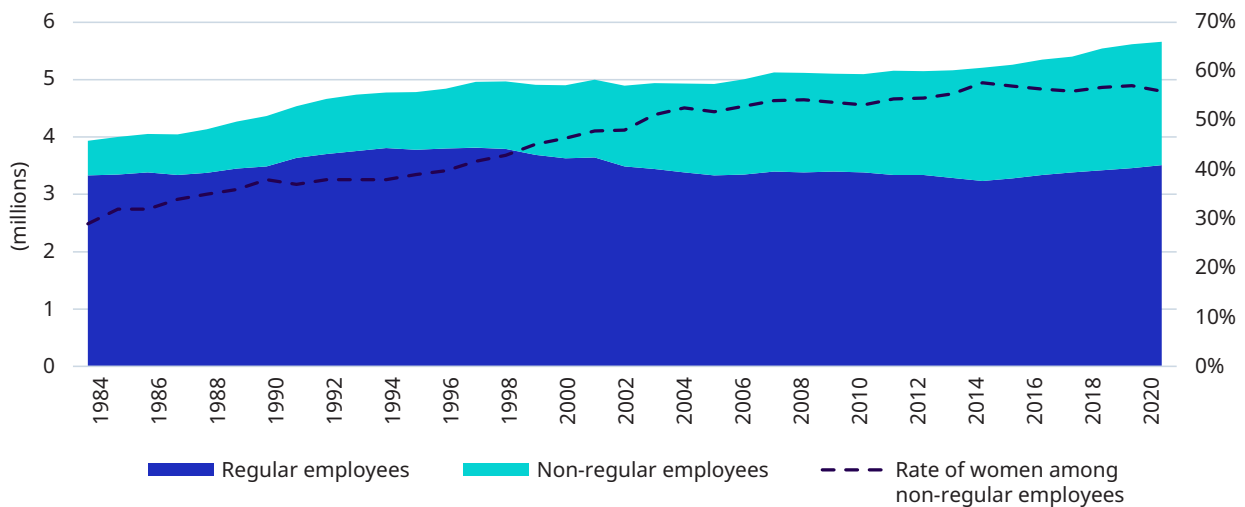
This situation contributed to the adoption of more flexible human resources policies and the more systematic recruitment of non-regular workers, particularly in the service industry. While companies had played a key role in the post-war social compromise by ensuring job stability and financial security, they were gradually moving away from this model.

The gradual increase in the share of non-regular employees is undoubtedly the biggest transformation that the Japanese labour market has undergone since the beginning of the high-growth period. People working under this status will account for nearly 40 per cent of the workforce in 2020 (figure 7). Part-time workers account for 49 per cent of the non-regular workforce and are particularly prevalent among women and the elderly.<sup>11</sup>

However, it must be remembered that the increase in the number of non-regular workers has not led to a decrease in the number of regular workers. The latter remain the core of the workforce, especially in large companies. One study has found that, insofar as the number of regular workers has remained relatively stable over the last 20 years, the increase in the number of non-regular workers is explained more by a larger influx of people who might otherwise have worked as self-employed or contributing family workers (Kambayashi 2017) – particularly women.

11 Labour force survey.

► **Figure 7. Regular and non-regular employment in Japan, 1984–2020**



Source: Japan, Ministry of Internal Affairs and Communications, n.d.

### Two-speed feminization process

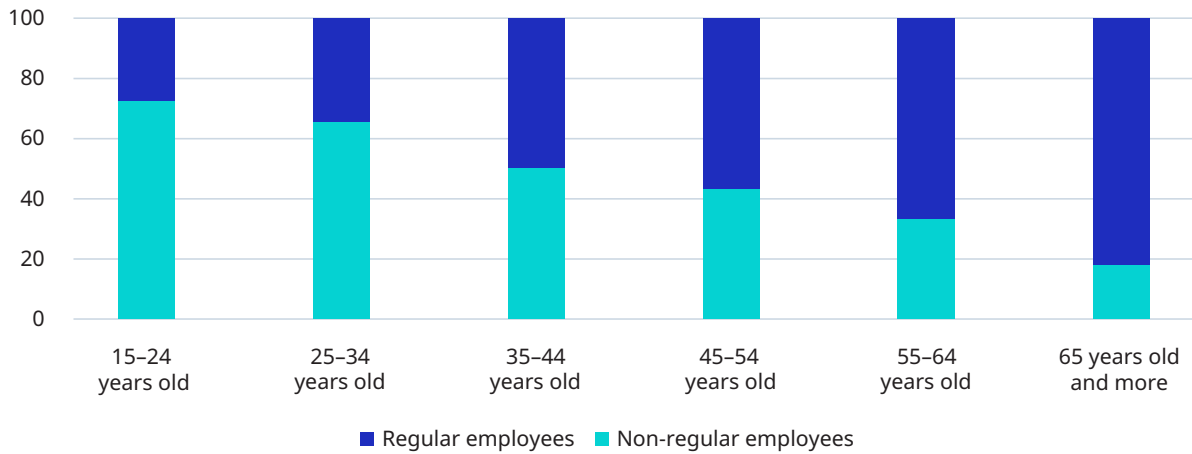
As noted above, the period of women's "disappearance" from the labour market coincided with the expansion of the male-centred Japanese employment model from the 1960s onwards, but the mid-1980s marked a turning point. The economic context of the mid-1980s led to a strong need for labour. At the same time, Japan, initially subject to criticism, finally signed the Convention on the Elimination of all Forms of Discrimination Against Women adopted by the United Nations General Assembly in 1979. These elements led to the passage of the Equal Employment Opportunity Act (*danjo koyō kikai kintō hō*) in 1985 to prohibit discrimination in hiring (before this, some companies did not allow women to take their entrance exams). The Basic Act for a Gender-Equal Society (*danjo kyōdō sankai shakai kihon hō*) followed in 1999 and the Act on Promotion of Women's Participation and Advancement (*josei katsuyaku suishin hō*) in 2015 (Yamaguchi 2019).

These laws have helped to reduce the "M-shaped curve". However, two elements contribute to the limitation of full women's participation in the labour market: the masculine character of the organization of careers in the Japanese employment model, on the one hand, and the casualization of work, on the other.

Initially, companies finding themselves under the obligation to hire men and women equally created differentiated career paths within companies. While men are mostly invited to follow a generalist career (*sōgōshoku*); women are guided to what is called the "standard job" (*ippan shoku*). This internal pathway takes into account the fact that female recruits will leave the company upon marriage or the first child. It does not allow for internal promotion and progressive salary increases. In addition, the tasks entrusted to women involve few responsibilities and are generally reception and maintenance functions for male employees (Yamaguchi 2019, 19). One of the consequences of these differentiated careers is the low share of women in management positions in companies.

The second point concerns the over-representation of women in non-regular employment. The higher share of women from the age of 40 since the 1990s is in fact based on new hiring with a non-regular employment status. More than 50 per cent of women aged 40+ are in non-regular employment (figure 8). Many of them hold part-time jobs in the service and sales sectors, due to the flexibility of the schedules (Ribault 2000). Thus, the gradual return of women has been underway since the 1980s, but this return must be qualified when we consider the difficulties women encounter in gaining access to regular jobs and stable careers.

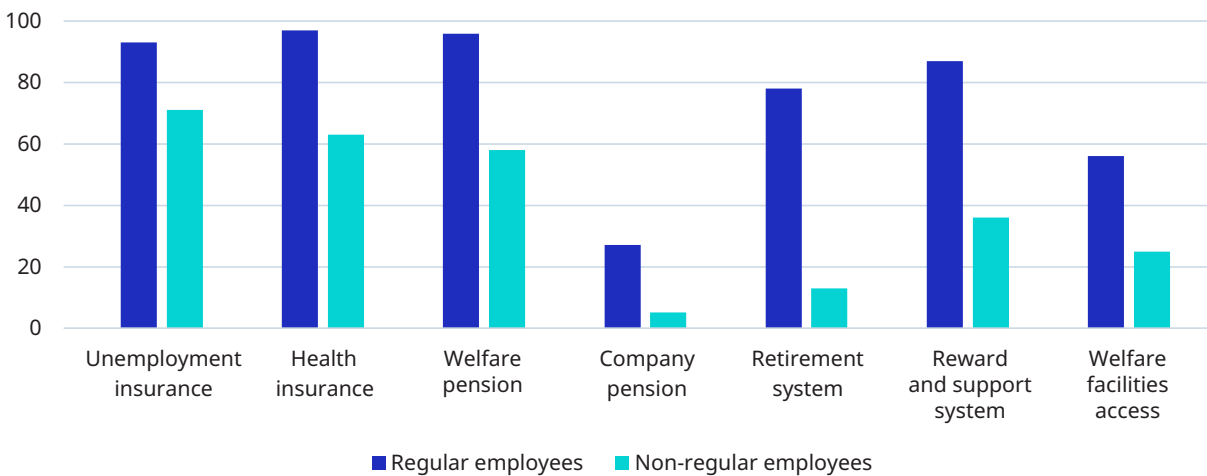
► Figure 8. Share of women among regular and non-regular employees in Japan, by age (%)



Source: Japan, Ministry of Internal Affairs and Communications, n.d.

Regarding the inequalities between regular and non-regular workers in contemporary Japan, the first issue is job security (Kambayashi and Kato 2017). According to a Ministry of Health, Labour and Welfare survey in 2014, only 42.6 per cent of non-regular workers were satisfied regarding the security provided by their positions, whereas this is true for 65.5 per cent of regular employees. A second issue is unequal access to skills training opportunities provided by firms. According to the 2015 Basic Survey of Human Resources Development, 44.1 per cent of regular employees received at least one opportunity for external education and training, compared to just 20.9 per cent of non-regular employees (Japan, Ministry of Health, Labour and Welfare 2015). The third issue is wage inequality. Non-regular employees earned around 40 per cent less than regular employees in 2015 (OECD 2017), and despite the adoption of the Work Style Reform Law (*hatarakikata kaikaku kanren hō*) in 2018, a strong disparity remains in average wages based on employment status. Finally, there is inequity in access to social entitlements (unemployment insurance, life insurance, pension systems and retirement benefits) between regular and non-regular employees (figure 9).

► Figure 9. Access to workers' entitlements in Japan by regular and non-regular employees, 2019 (%)



Source: Japan, Ministry of Health, Labour and Welfare, *General Survey on Diversified Types of Employment*, n.d.



### Increasing protections for non-regular workers

While regular employment continues to be structured around the norms established during the high-growth period, a process of expanding labour protections for non-regular employment is underway. Indeed, most of the regulations and reforms developed since the 1990s have been aimed at this category of workers.

In 1986, the Worker Dispatching Act (*rōdōsha haken hō*) legalized previously prohibited temporary agency work and the establishment of private temporary agencies. Even though this category of worker is small, at 2.4 per cent of employment in 2020, the legalization of temporary agency work remains an important moment in the neoliberal turn of the Japanese labour market in the 1980s (Imai 2011, 58). Since the last amendment in 2015, all temporary workers dispatched to the same company for more than three years must be offered a permanent contract.

The case of senior workers is another example. This category has long been part of the informal workforce (Kambayashi 2017, 324). In comparison with other OECD countries, Japan has the highest share of elderly workers. In 2017, 72.7 per cent of men between 60 and 64 were working. For men between 65 and 69, the rate still reaches 49 per cent, most of them with non-regular employment status. By moving from regular to non-regular employment status, the social protections and wages offered to these employees are greatly diminished, even though the work may be the same as when these employees were still in regular contracts. A new amendment of the Act on Stabilization of Employment of Elderly People (*kōneireisha koyō antei hō*) in 2013 extended the mandatory retirement age from 60 to 65 in a large proportion of firms. By requiring companies to offer re-employment options to their employees of an increasingly advanced age, this law allows senior workers to continue working within a legal framework; although re-employment of older workers is done on a basis of annual contracts.

Throughout the first part of the twentieth century, the formalization of the labour market took place through the dissemination of norms and practices, first for skilled male employees in large organizations, before being extended to all workers. This corresponds to a sort of “selective formalization” because it was limited to the upper part of the labour market deemed most valuable for meeting the State’s economic objectives. However, as the new regulations concern themselves with more precarious workers at the lower part of the labour market, we can say that we are witnessing a broader, (near) universal formalization. While establishing a minimum framework of protection for non-regular employees, the current system of protections is still limited due to the disparities in pay and working conditions compared to regular employees. The recent Work Style Reform passed in 2018 proposes solutions to reduce these disparities.<sup>12</sup> For the moment, it is still too early to know if it will succeed.

#### 4.1.5. Summary

- The formalization of the Japanese labour market is based on the development of large industrial groups which, with the support of the State, have been participating in the modernization of the country since the beginning of the twentieth century. The need to stabilize the workforce to maximize productivity led to improvements in wages and stable contracts. However, these improvements only applied to a relatively small part of the total workforce (skilled men working in large companies). This may be seen as a form of “selective formalization” because it concerns people who are at the upper end of the labour market.
- The period of high growth that the country experienced from the 1960s onwards allowed the employment standards established before the war to be extended to a larger proportion of workers, reducing inequalities between them and contributing to the decrease in the number of employees in own-account work and contributing family work (vulnerable employment).
- Small enterprises have been encouraged to register since the establishment of the Commercial Registration Act in 1963 through the provision of benefits such as payroll tax cuts.

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<sup>12</sup> The Work Style Reform of 2018 was passed to improve the overall working conditions in Japan. It includes several components on working time regulation and wage distribution. The aim of the latter is to reduce inequality of treatment between regular and non-regular workers, especially when the work performed is the same (see Baudrand et al. 2018).

- ▶ While women constituted a significant part of the labour force until the end of the Second World War, the expansion of the Japanese employment model in the 1960s contributed to their “disappearance” from the labour market, until labour shortages necessitated the reforms needed to encourage female employment, primarily as non-regular workers.
- ▶ Since the end of the 1980s, with the increasing numbers of non-regular workers, new regulations have been implemented with the intention of increasing non-regular workers’ access to benefits and labour protections, and thus move towards a broader formalization that also now includes those at the lower end of the labour market.

## 4.2. Republic of Korea

### 4.2.1. Introduction

Following the rapid economic expansion of Japan in the post-war era, the Republic of Korea experienced an even faster catching-up from the 1960s onwards. The late industrialization of the Republic of Korea constitutes another seminal case of a developmental State in the political economy literature on Asia (Amsden 1989; Wade 2004). Scholars have described the institutional and political economy dynamics underpinning the export orientation policy, with the developmental State at its centre. The main characteristics of the state intervention discussed in the literature focus on government-driven industrial policies and the tight relationship between the State and the family-run conglomerates known as *chaebols* (Haggard and Moon 1990; Rodrik 1995). Public investment in education was also complimentary to the developmental industrial policies.

During the industrialization period, the bulk of the transition from informal to formal employment occurred (similar to Japan) as the industrial sector absorbed a growing number of paid workers and economic planning brought the firm hand of the State to the realm of the labour market.

The three historical periods of importance to the development of the institutional labour market framework in the Republic of Korea are the:

- ▶ **Colonial period (1910–45):** The first industrial revolution in the Republic of Korea is concomitant with the colonial period.<sup>13</sup> It was in the pre-war period that large-scale manufacturing began to emerge, fueled by the rural labour force moving into urban areas. Formalization was fueled by growth of manufacturing enterprises and management efforts to lock in skilled workers, especially after 1937 with the mobilization of the colonial war. During this period, labour management began introducing the pillars of the Japanese style of labour management, which relied on trained Korean workers.
- ▶ **Developmental period (1961–87):** The formalization of workers accelerated during the developmental industrialization starting in the 1960s. General Park promoted the manufacturing industry through state-led industrial policies that designed entitlement systems for their workers as a counterbalance to certain difficult working conditions. These policies involved the close monitoring of exporting firms, the planning of the economy and the design of a formal institutional framework (Yang 2017, 76)
- ▶ **Democratization period (1987–97):** The success of the Great Worker Struggle led to the increased formalization of workers and the expansion of labour rights. Paradoxically, the labour movement that overruled the developmental dictatorship also led to the overturning of the increasing formalization trend with the implementation of increased flexibilization within labour policies.

The remaining discussions focus primarily on the second and third periods.

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13 There is a lasting debate among Korean scholars about the analysis of the role of Japan in Korea’s industrialization. A balanced view is adopted here by recognizing the authoritarian subordinate relationship of Korea to the Japanese Empire while still acknowledging the lasting impact on Korean institutional and economic structures of this period, especially in the development of the local industrial structure.

## 4.2.2. State-led industrialization and state corporatism as a formalization pathway

The formalization of employment in the Republic of Korea was concomitant with industrialization and the rise of factory workers. The structural change from an agricultural economy to an industrial economy in the Republic of Korea was initiated during the colonial (1910–45) period but achieved during the developmental period (1961–87).

### Industrial policies and structural change

Before the Japanese colonial period, the Chosŏn Empire (1392–1910) economy was dominated by agricultural and craft activities. Japan's effective annexation of Korea in 1905 was taken as an opportunity for the Japanese authorities to increase its arable land. The objectives of the economic planning during the 1920s were focused on rice production planning and developing the market for Japanese manufactured goods.

Japan's strategy in Manchuria and the world economic depression led to a change of strategy for the Korean economy in the 1930s. Korea's proximity to mainland China made it a cornerstone of the Japanese expansion strategy, which began encouraging the development of manufacturing industries (Chung 2006, 93). After 1937, industrial policies per se were implemented in Korea by the Japanese colonial government, initiating the drive towards heavy manufacturing.

After the liberation in 1945, the Syngman Rhee regime (1948–60) also put manufacturing at the centre of its development strategy. Notably, the regime designed a land reform, enacted in 1950, that aimed to restructure the agricultural sector following the shattering of the landlord–tenant colonial system by distributing the land to peasants and compensating tenants.<sup>14</sup> By dividing the land into such small parcels, the Government made it impossible for peasants to make a decent living or absorb the available labour force.<sup>15</sup> Moreover, heavy taxes on agricultural activities,<sup>16</sup> combined with price control and grain imports from the United States, led to the impoverishment of local farmers and further increased incentives to move towards the growing number of manufacturing jobs.

The rural exodus reached such a high point in the 1960s that the economy was at risk of shortages of raw materials. In 1970, a rural modernization plan – the New Village Movement (*Saemaül Undong*) – was enacted to boost productivity in the agricultural sector through mechanization (S. Kim 2021, 279).

Structural change was truly achieved during the developmental state period under the dictatorship of General Park, who took power in 1961. The centralization of power by the authoritarian military government enabled the construction of an economic apparatus, unified around a pro-growth consensus, as well as a nationalist agenda of economic independence (*jarip gyeongje*). By nationalizing commercial banks, the public financial system became the only channel to access domestic and foreign capital (especially from the United States and Japan), which put the State at the centre of corporate sector development. The economic bureaucracy actively used its control over capital allocation to promote the export sector through direct subsidies and preferential loans. Park's administration took “carrot and stick” and “select and concentrate” approaches by linking direct financial support from the Government with a performance-based evaluation system (Haggard and Moon 1990; Rodrik 1995).

14 Following independence in 1945, the lands owned by Japanese landlords were sold to Korean tenants in 1948. Japanese landlords owned 15.3 per cent of Korean farmland at the time (Mitchell 1949).

15 Anticipating the 1950 labour reform, almost half of land tenants had already sold their property by then.

16 Temporary Land Yield Tax (*Imsi toji sudŭkse*) in force from September 1951 to December 1960.

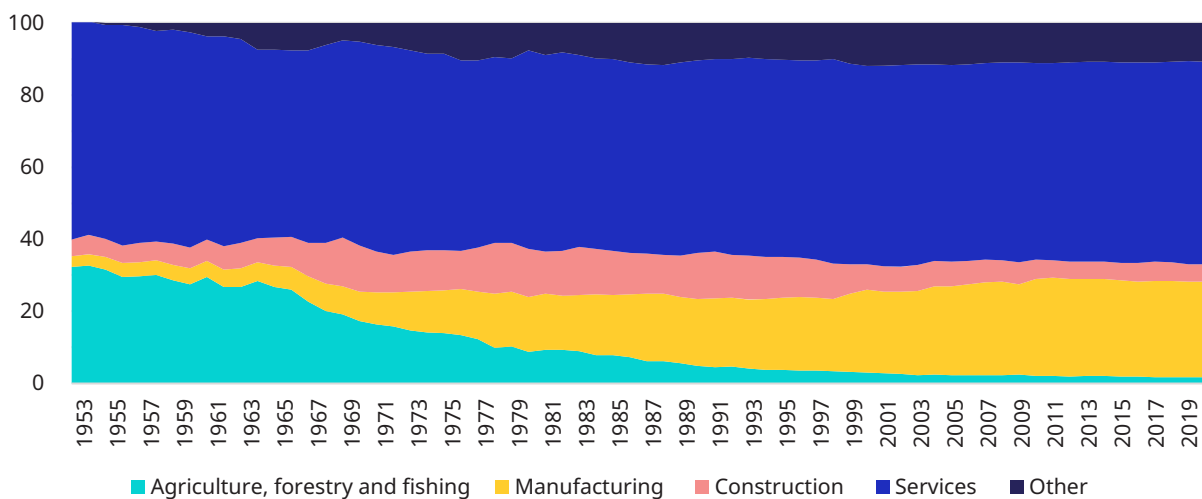
The industrial upgrading strategy evolved from an export promotion policy in the 1960s to an infant industry policy in the 1970s that focused primarily on heavy-chemical industries such as steel, nonferrous metals, machinery, petrochemical, shipbuilding and electronics (Woo-Cumings 1999). At this time, structural change really kicked in, with the share of the agricultural sector in GDP dropping steadily to below 30 per cent (figure 10). The results proved to be strong in terms of economic growth, with a compound rate of growth of 9.4 per cent in the 1960s and 10.5 per cent in the 1970s.<sup>17</sup>

### The rise of *chaebols*

The large family-run firms – *chaebols* – became the main production units of heavy-chemical industries. Benefiting from both industrial policies and the financial system, they could shield themselves from inefficiencies such as inflation, credit shortages, excess capacities and weak demand. The *chaebols* received the lion's share of industrial policy subsidies. Even though small- and medium-sized enterprise (SME) policies existed, they were of a limited scale and SMEs were circumscribed in regard to financial support until the 1990s. During the developmental state era, SME promotion focused on exporting and subcontractor companies, which contributed to the *chaebols'* expansion through vertical integration or sustained subcontractor relations.<sup>18</sup>

This privileged alliance between the State and the *chaebols* during the developmental period has had tremendous consequences for the national industrial structure by instigating family-based corporate governance and a lack of corporate diversity in the Republic of Korea. Indeed, the *chaebols* began to diversify and enter all the sectors favoured by the State. As a result, the productive structure was overly dominated by *chaebols*, maintaining SMEs (if not absorbed by the group) in a subcontractor position with consequences such as the weakening of both spillovers and labour (Koo 2001).

► Figure 10. Breakdown of GDP by sector in Republic of Korea (2015 chained price), 1953–2019 (%)



Source: Bank of Korea, Economic Statistics System, National Accounts, 10.2.1.4. GDP and GNI by economic activities, n.d.

17 Compound rate for the periods 1960–69 and 1970–79 (Bank of Korea, n.d.).

18 The main instruments used to support SMEs were policy loans and research and development subsidies (Kang and Mah 2015).

## Formal employment increases with state-led industrialization

On the labour side, the corollary of structural change was the increased formalization of employment in the manufacturing and mining industries.

The traditional rural system gradually disintegrated from the 1930s onwards, making way for the rural labour force to be absorbed into urban industries. Studies show that “modern” industrial relations characterized by the Japanese labour management system were used in large-scale government factories and large-scale Japanese plants (S.W. Park 1999b, 149). It was also in this period that the number of formal enterprises began to rise. Laws on business registration were introduced as early as 1905 when Japanese laws were integrated into the Korean legal framework. While only 88 enterprises were registered in 1906, there were 5,414 in 1938 (Chung 2006, 96).

A key turning point in the formalization pathway occurred in the late 1930s when Korean workers benefited from the depletion of the national labour surplus. After 1937, Korean male and female workers moved to formal employment (in accordance with ILO guidelines) in the industry sector, where they could benefit from permanent contracts with fixed hours, training opportunities, welfare and sometimes housing advantages. The number of factory, mining and construction workers increased more than three-fold from 1933 to 1942 (223,115 to 744,023), and by 1945, half of urban workers were paid workers with permanent contracts.

The industrial policies under the Park regime further accelerated the transition of workers towards factories. Manufacturing wage workers surged from 417,000 in 1963 to 2.5 million in 1980 (Yang 2017, 74). Increasing industrial employment was spread across several areas thanks to regional policies aiming at balancing manpower and growth across the country.<sup>19</sup> Public sector activities also grew significantly during the period.<sup>20</sup>

While labour market participation only slightly increased in the 1960s and 1970s – from 52 per cent in 1962 to 56 per cent in 1980 (Sakong and Koh 2010, annex table 8); the share of wage and salaried workers did improve steadily – from 32 per cent in 1963 to 47 per cent in 1980 (figure 11). Among wage and salaried workers, the share of daily workers dropped from 40 per cent in 1963 to 20 per cent in 1980 (table 5).<sup>21</sup> Women remained over-represented in self-employment status (61 per cent of female workers against 48 per cent of male workers in 1980), especially as contributing family members. The 1970 population survey gives a more precise overview of the formalization process at the time: only 22.6 per cent of all wage and salaried workers had a regular employment status; though regular employment had reached 53 per cent in manufacturing and 67 per cent in social and personal services (table 6).

An additional contribution to the formalization of the labour market was the highly structured bureaucracy and its determination to safeguard public finances through exhaustive tax collection. Indeed, the resources made available to tax inspections made credible the sanctions against unregistered businesses. For instance, in the garment industry, small informal shops in Seoul were reportedly forced to either change locality or officially register in the 1970–80 period because of tax inspections (Kwon and Amin 1995).

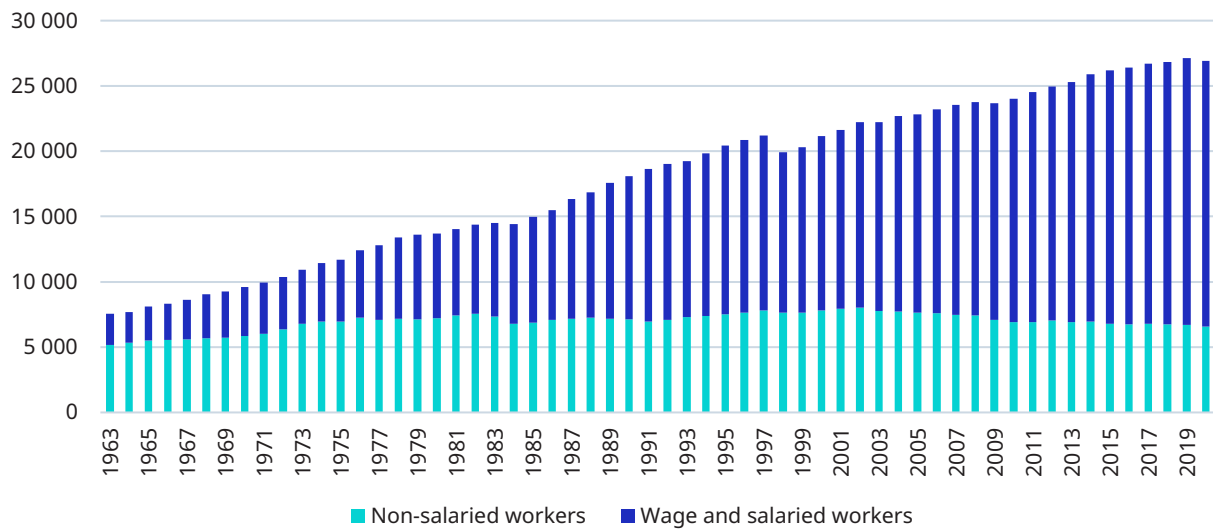
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19 To curb the overwhelming concentration of manufacturing activities in the Seoul area, the Park regime designed a strategy of industrial complexes in other provinces where it constructed the infrastructure for firms to settle in. The Government encouraged internal migrations of workers from semi-urban areas to the regions of Seoul (Seoul and Gyeonggi-do) and the south-west (Busan, Ulsan). The 1977 Distribution Law provided incentives for the relocation of heavy industries to the south-eastern coastal area (S.S.Y. Lee 2011, 154).

20 Besides hospitals, universities and military complexes, the Government also had national companies for tobacco, ginseng and transportation (railway and highway construction and management). See: Bank of Korea 1980.

21 The data available from employment surveys only divides the wage and salaried workers status in salaried workers and daily workers for this period.

► Figure 11. Employment by status in Republic of Korea (in thousands), 1963–2019



Source: Statistics Korea, Economically Active Population Survey, Employed persons by gender/ status of worker.

► Table 5. Employment in Republic of Korea by status, 1963 and 1980 (in thousands)

Status	Male		Female		Total	
	1963	1980	1963	1980	1963	1980
<b>All workers</b>	<b>4 930</b>	<b>8 462</b>	<b>2 633</b>	<b>5 222</b>	<b>7 563</b>	<b>13 683</b>
<b>Self-employed workers</b>	3 120 (63%)	4 047 (48%)	2 059 (78%)	3 173 (61%)	5 178 (68%)	7 220 (53%)
► <b>Own-account workers</b>	72%	85%	28%	38%	54%	64%
► <b>Contributing family workers</b>	28%	15%	72%	62%	46%	36%
<b>Wage and salaried workers</b>	1 810 (37%)	4 415 (52%)	574 (22%)	2 049 (39%)	2 383 (32%)	6 464 (47%)
► <b>Salaried workers (including temporary)</b>	62%	80%	52%	79%	60%	80%
► <b>Daily workers</b>	38%	20%	48%	21%	40%	20%

Source: Statistics Korea, Economically Active Population Survey, Employed persons by gender/status of worker.

► **Table 6. Paid employment in Republic of Korea by status and sector, 1970**

Sector	Total (in thousands)	Employed wage and salaried workers (%)	Regularly employed (%)	Temporarily employed (%)	Daily employed (%)
All sectors	10 153	39.0	22.6	6.2	10.2
Agriculture, fishing and forestry	5 157	10.7	1.3	1.9	7.5
Mining and quarrying	100	90.8	45.8	19.6	25.4
Manufacturing	1 448	76.8	52.9	13.5	10.4
Construction	462	86.0	16.8	13.0	56.2
Wholesale and retail trade	1 280	27.5	15.3	7.2	5.0
Social and personal service	1 222	87.5	67.1	10.0	10.4
Others	484	83.0	68.2	10.2	4.6

Source: Korean Population Survey 1970.

### Formal employment facilitated by State corporatism

The formalization of labour was enabled by the close relationship between the State and businesses modeled after Japanese corporatism (see section 4.1).<sup>22</sup> Firstly, features of Japanese industrial relations, such as the council system and company union system, were introduced into the Korean economy (S.W. Park 1999a, 46; S.W. Park 1999b, 156).<sup>23</sup> Labour-management councils brought together workers' associations and management representatives. These councils aimed at planning workers' education, promoting increased efficiency and preventing labour disputes. Secondly, labour mobilization and education upgrading policies were initiated with the launch of "patriotic industrial units" in factories in order to increase productivity (S.W. Park 1999b, 156). The permanent employment system spread in factories, mines and construction sites, mainly in government and Japanese-owned private companies (S.W. Park 1999b, 149).

The Park regime instituted a type of state corporatism within the *chaebols* (Kong 2004, 23). Firms, primarily exporting firms, benefitting from state support were subjected to exhaustive performance monitoring by the State and were expected to strictly comply with financial controls, tax payments and state mandates on technological development and business registration (H.J. Chang 1993, 142). Employment practices were characterized by seniority-based wages and long-term employment (based on the Japanese model of life-long employment). Benefits for core workers included subsidies for housing and income bonuses (S.S.Y. Lee 2016, 6).

<sup>22</sup> Corporatism "refer[s] to a process of interest intermediation which involves the negotiation of policy between state agencies and interest organisations arising from the division of labour in society, where the policy agreements are implemented through the collaboration of the interest organisations and their willingness and ability to secure the compliance of their members" (Grant 1985, 3).

<sup>23</sup> In 1938, the Government launched the Campaign for the National Protection Corps of Industrial Workers (Sanpo).

Coverage for industrial accidents was made compulsory for firms with more than 500 employees in 1964 (already the employers' responsibility as of the 1953 labour laws) and extended to smaller firms (above 50 employees) in 1968 (Yang 2017, 62).<sup>24</sup> Health insurance was enacted in 1963, but was reduced to a voluntary scheme given the vehement opposition of employers. It was only made compulsory for firms with more than 300 employees in 1977 (Yang 2017, 67).

Labour relations overall remained stable and calm during the Park era due to the tight control of organized labour. The regime gave birth to the Federation of Korean Trade Unions, a government-controlled, monopolistic labour union and the only organization that allowed collective bargaining within the firms. In addition, the regime introduced the Joint Labour-Management Councils, forbade political activities by trade unions and severely restrained labour disputes (S.S. Kim 2006, 158).

### Labour movement makes a comeback

The demise of the Park regime in 1979 led to a resurgence of the labour movement called the Seoul Spring. The Chun regime (1980–87) harshly repressed this uprising, trying to nip the call for democratization in the bud. The Kwangju massacre in 1981, when hundreds of demonstrators were killed by the regime, acted as a juncture for the democratization movement (Cho 2003). Labour unrest was contained until 1987 when the "Great Worker Struggle" burst forth (H.A. Kim 2013), propelling the fall of the regime. The demands of workers included wage increases and democratic industrial relations, and these demands were largely met. In large firms, salaries increased by 20 to 30 per cent plus benefits (Koo 2001, 158).

The democratization movement was essential to increasing the formalization of labour arrangements and the expansion of worker benefits beyond skilled workers in large firms. The proportion of wage and salaried workers among the total workforce increased from 47.2 per cent in 1980 to 60.5 per cent in 1990 (Chun 2009, 52). With the Kim Young-Sam Government (1993–98), labour rights substantially increased at the cost of flexibilization (Kong 2004; S.S.Y. Lee 2011).

### The marginalization of women workers

The overall increasing employment formalization of the labour market, although driven by male factory workers, had positive spillovers into women's employment. The female labour participation rate steadily increased from the colonial period to the mid-1970s, hitting a peak of 38.8 per cent of the economically active population in 1975 (Chun 2009, 74). After a decade of decrease from 1975 to 1985, it gradually rose to 53 per cent in 2020 (ILO n.d.-b). Compared to Japan, the "M-curve" only appeared in the 1980s with a lower rate of female labour force participation throughout all age groups.

The ideological corollary of the heavy-chemical industries drive was the promotion of the "male bread-winner" model, with women encouraged to stick to roles within the household (Moon 2005, 69). While women were actively involved in light manufacturing industries in urban areas since the beginning of the century, especially in the textile and soap industries, heavy manufacturing offered few opportunities for them. Women were almost entirely excluded from vocational training and education during this period (H.A. Kim 2013).

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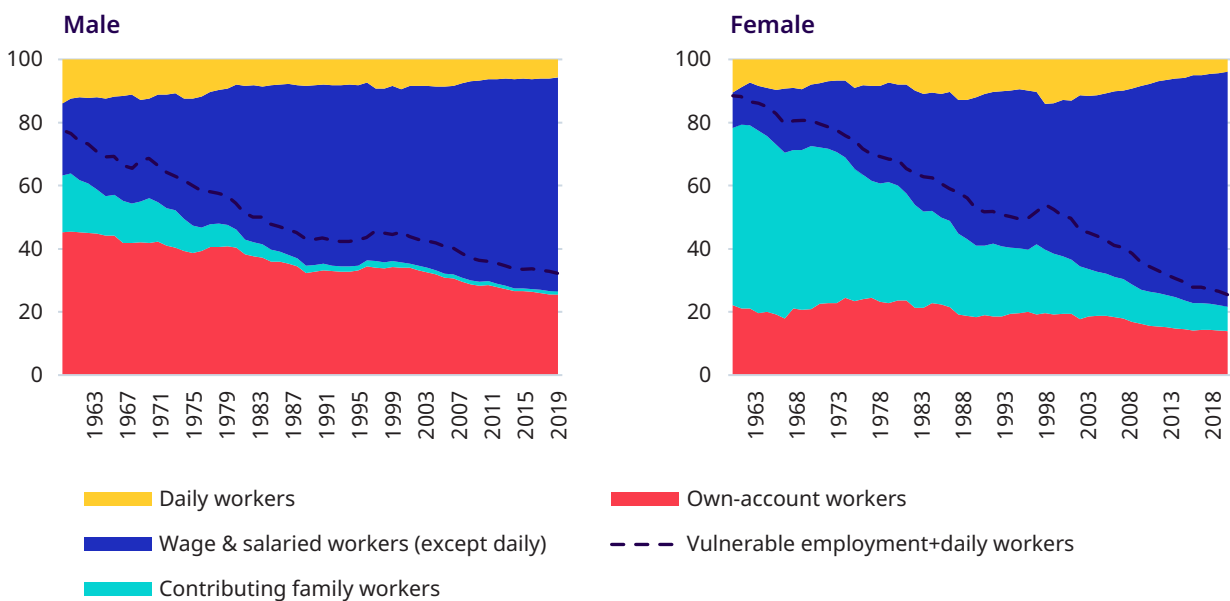
24 The social legislations enacted by the Park regime were the: Livelihood Protection Law (1961), Children's Welfare Law (1961), Disaster Relief Act (1963), Basic Law for the Korean Social Security System (1963), the Industrial Accident Insurance Scheme (1964), the Public Assistance Programme (1965) and the National Health Insurance Scheme (1977) (Pirie 2007, 74; Yang 2017, 81).



From the 1980s onwards, women workers have been channeled to the service sector, where worker benefit provision is limited and contracts are most often informal or non-regular. Therefore, women are overrepresented in precarious jobs (see figures 12 and 13). Indeed, the share of vulnerable employment <sup>25</sup> in women's employment was significantly higher than men's until the 2000s. While the pace of reducing the share of vulnerable employment was similar for men and women (until the 2000s), the dynamics at play have been different. For men, the trend has been driven by the reduction over time of all categories of workers outside paid employment. By contrast, for women, the only significant reduction has been in the category of contributing family workers, who have been absorbed into regular paid employment; while the shares of casual workers and own-account workers show little change. Moreover, the wage gap between men and women has steadily increased since the 1970s to reach 1.4 million Korean won per month (around 1,200 US dollars or 36 per cent of male wage) (figure 14).

Women played an important role in the labour movement in the 1960s, but became marginalized in the Great Labour Struggle of 1987, since the decline of light industries made their position in the labour market more vulnerable (Koo 2001, 180). Nevertheless, women's role in the democratization movement led to the rise of the feminist movement promoting women's rights and labour rights in the postdevelopmental state society (K.S. Chang 2012, 76).

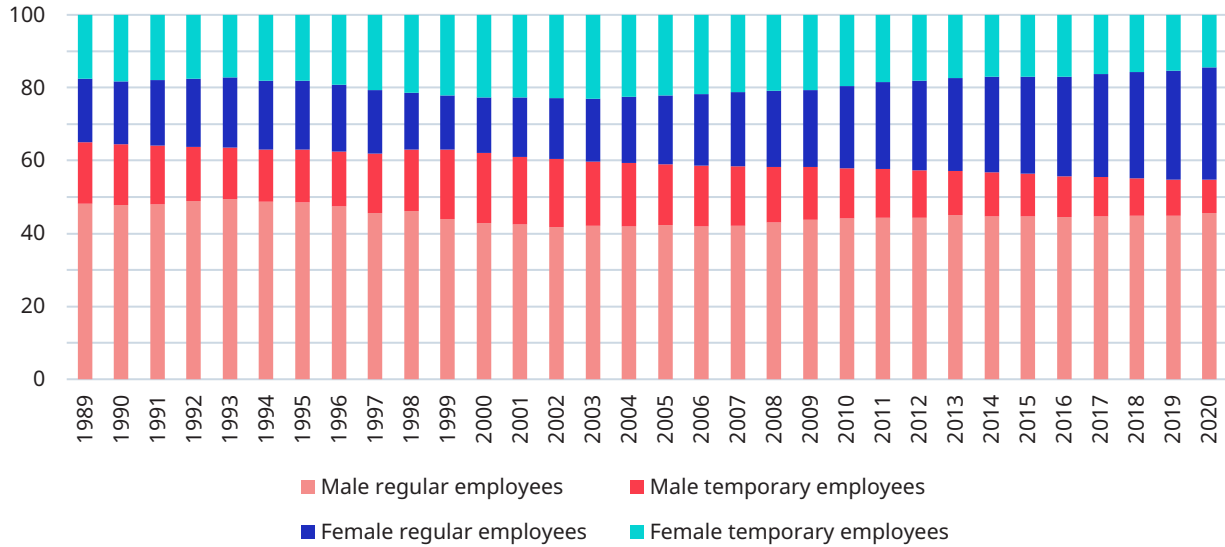
► **Figure 12. Employment by gender and detailed status in Republic of Korea, 1963–2019 (%)**



Source: Statistics Korea, Economically Active Population Survey, Employed persons by gender/ status of worker.

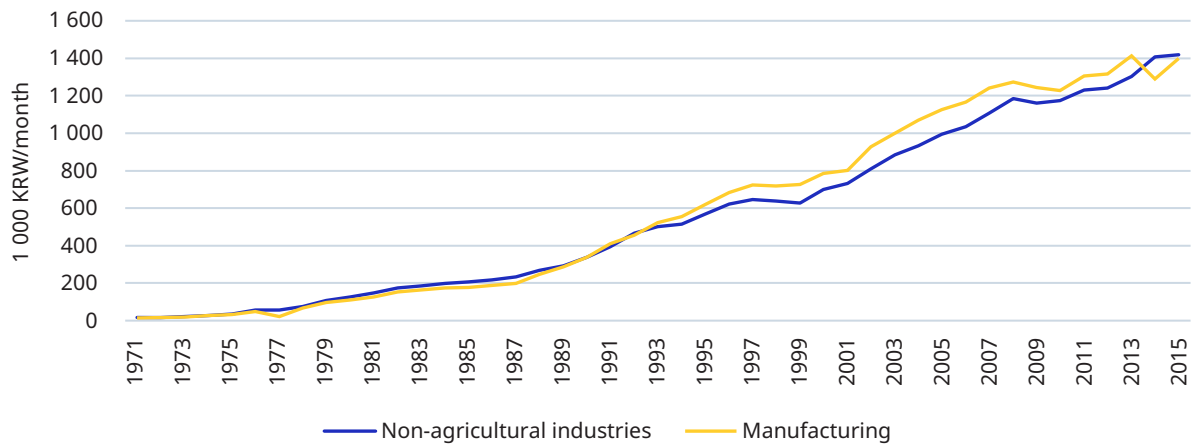
25 Defined as own-account workers and contributing family workers.

► **Figure 13. Proportion of total employment by employment status and gender in Republic of Korea, 1989–2020 (%)**



Source: Statistics Korea, Economically Active Population Survey, Employed persons by gender/ status of worker.

► **Figure 14. Gender wage gap in industry in Republic of Korea, 1971–2015**



Notes: Total wage=Regular salary+Overtime+Annual Bonus of Previous Year/12 ; non-agricultural industries are all sectors except agriculture, forestry, and fishing, activities of households as employers.

Source: Korea Labor Institute 2017, Wage and labor productivity, Table III-8.

### 4.2.3. Increasing vulnerability since the 1990s

Under the drive for globalization (*seggyehwa*) of the Kim Young-Sam Government, the idea of modernizing the economy was understood as the promotion of further integration into world financial markets and global production markets. In this period, deindustrialization in the Republic of Korea began to be more apparent: the services sector accounted for more than half of the jobs created in 2000 (149 per cent growth from 1990) (Chun 2009, 51).

The relative decline of manufacturing in terms of employment had negative repercussions on employment formalization pathways: the labour law framework was strengthened for the most precarious workers, but fewer job opportunities with wages and full benefits in manufacturing have been offered. In 2019, the monthly survey on employment status by industry revealed that non-regular workers represent 8 per cent of the manufacturing workforce. In comparison, non-regular workers amount to 52 per cent in wholesale and retail trade, 43 per cent in accommodation and food sector activities, 37 per cent in public administration and defence, and 30 per cent in financial, insurance and real estate activities (KOSIS, n.d.). In recent decades, studies show that the labour market is stratified between regular workers and non-regular workers, as well as between large firms and SMEs (Cho and Lee 2015; Koo 2021).

The rapid increase of non-regular workers after 1997 reflects the profound restructuring of the labour market in the modern era. The flexibilization of the labour market, combined with massive layoffs in the corporate sector after the Asian crisis, laid the ground for expanding a new bottom stratum of the “underpaid and under-protected” working class (S.S.Y. Lee 2016). Large corporations, striving to better their price competitors, have since relied on non-regular workers and in-house subcontractors to absorb upward and downward variations in demand, while at the same time benefiting from further division of labour (Lee and Frenkel 2004).

The Republic of Korea has experienced a drop in manufacturing employment, which is dominated by large firms, and along with it a weakening of the previously-secure employment model specific to industrial workers. By 2017, the services sector, dominated by SMEs, employed almost 80 per cent of the workforce; non-regular employees<sup>26</sup> represented 13 per cent of the manufacturing sector workforce and 38 per cent of the workforce in the service sector (KOSIS, n.d.). While labour unions have become dominated by the blue-collar elite (H.A. Kim 2018), non-regular workers have had more trouble organizing, given the flexible nature of the non-regular workforce and the limitations of their labour rights (Doucette and Kang 2018). Social protection for non-regular workers is significantly lower compared to regular workers. According to the Korea Labour and Society Institute (KLSI), only 32.4 per cent of non-regular workers benefit from the national pension scheme and 38.9 per cent from health insurance coverage, compared to almost complete coverage among regular employees (figure 15).

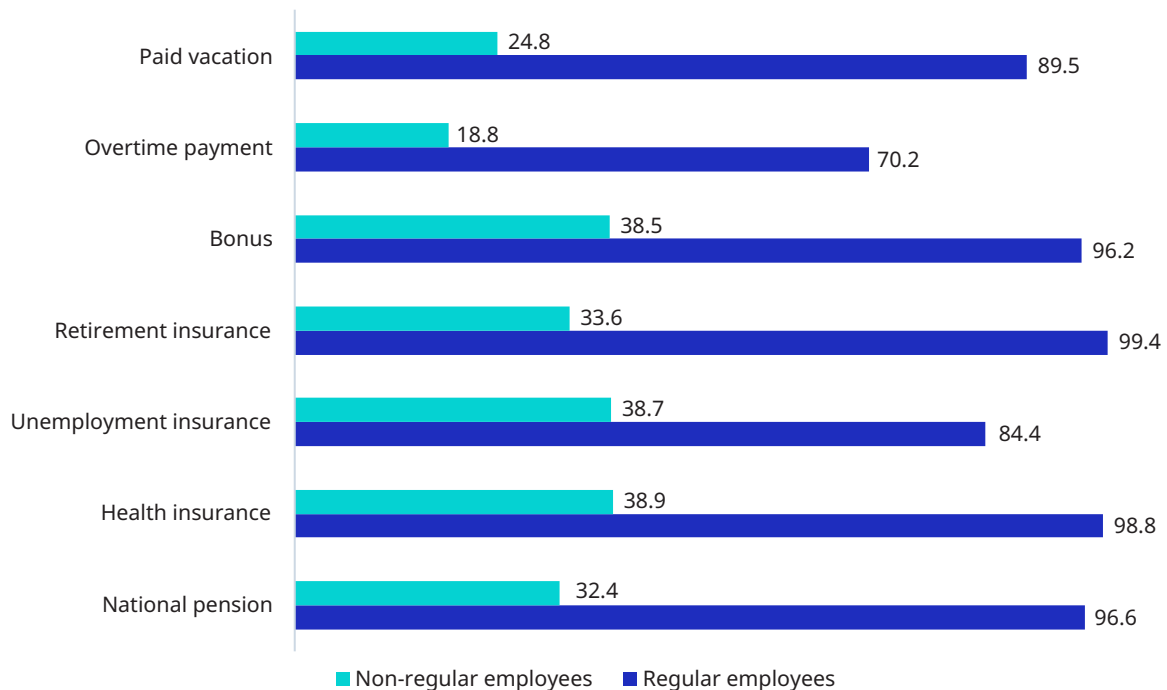
The protection of non-regular workers was reinforced by the 2007 Act on the Protection of Fixed-Term and Part-Time Employees<sup>27</sup> (which was amended substantially in 2013 and 2014), but the Act suffers from a lack of enforcement and from loopholes regarding in-house subcontracting (Ok 2016; Cho and Choi 2017). Still, after the Supreme Court ruled in favour of non-regular workers, forcing Hyundai Motor to hire 8,200 non-regular workers in 2012, several companies have been mandated by the Ministry of Labour to proceed with such conversions (T.W. Park 2017; Jeong 2016; S.H. Kim 2013). The public sector was also an area of concern, and President Moon pledged for zero irregular employment in public institutions (Jeong 2017).

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26 Non-regular employees are workers in the formal sector who are subcontracted, dispatched or do not work full-time with a permanent contract.

27 The Act on the Protection of Fixed-Term and Part-Time Employees came into effect in 2007 and was last amended in 2014; the Act on the Protection of Dispatch Workers was further amended in 2014 (Schauer 2018).

► **Figure 15. Proportion of regular and non-regular employees with access to various forms of social protection, 2015 (%)**



Source: KLSI 2016, as cited in Koo 2021.

A corollary to the rise of non-regular employment without a proper social safety net has been the surge of inequalities driven by labour income inequalities (Song 2012; Kim and Kim 2015; Kim and Skott 2016). The rise of income concentration in the Republic of Korea is among of the fastest in the world: the top decile's share was multiplied by 1.5 between 1995 and 2010.<sup>28</sup> The rapid increase in income concentration since the mid-1990s has been driven by the decline of domestic manufacturing employment and the decrease of the marginal tax rate for top incomes (Kim and Kim 2015). A slight decrease in labour income inequalities has been observed in recent years, with a lower wage differential between regular and non-regular workers: in 2017, non-regular workers in large manufacturing firms earned 46 per cent of the permanent workers' hourly wage, which is up from 31 per cent in 2008.<sup>29</sup>

#### 4.2.4. Summary

- The rapid industrialization of the Republic of Korea, driven by the developmental State, enabled employment formalization through the development of large-scale manufacturing. The structural change triggered during the colonial period was later achieved thanks to economic planning and state-led industrial strategies. The heavy involvement of the State in governing the market included channeling workers towards strategic sectors. Industrial upgrading was therefore closely linked to skills upgrading, the move towards the higher ends of the manufacturing and services sectors, as well as long-term and stable employment opportunities.

<sup>28</sup> Computed from the [World Inequality Database](#).

<sup>29</sup> There is an important difference for smaller firms (less than 300 employees), in which the average wage of non-regular workers is 72.5 per cent of regular employees across all industries, and 71.5 per cent in manufacturing (63 per cent and 67.5 per cent, respectively, in 2008) (Republic of Korea, n.d.).

- ▶ During the developmental state period, industrial relations were framed under state corporatism, which involved formal employment, skills upgrading and minimum welfare at the price of the repression of collective organization.
- ▶ Democratization brought improved working conditions, more formalization of the labour market and strengthening of the welfare system.
- ▶ The marginalization of women has yet to be fully overturned. Women suffered from heavychemical industry promotion in the 1970s and its ideological component of a male-breadwinner model. It is still visible in the M-shaped curve seen for the labour participation of women, who have been structurally discriminated against by the seniority-wage system.
- ▶ The 1990s were a turning point in the formalization pathway, which was previously characterized by an increasing number of quality jobs driving up national productivity gains. The flexibilization of the labour market brought forward a rise in non-regular workers and an increase of income inequalities. Although they are part of the formal labour force, non-regular employees tend to be concentrated in low productivity activities and have restricted access to social protection, features that show some similarities to jobs provided in the informal economy.

## 4.3. Singapore

### 4.3.1. Introduction

Singapore is known as one of the “Four Tigers” in the East Asian Miracle because of its successful record of high economic growth in the 1960s–90s. Singapore’s development trajectory shows that its developmental state model has been instrumental in enabling rapid and extensive employment formalization. The growth of GDP per capita and its industrial upgrading have been spectacular for a small city-state stripped of raw materials. Already a dynamic staple port while under British control, the post-independence Singaporean economy shifted towards high-value-added manufacturing and financial services in the late 1960s. Singapore transitioned to high-income status in record time while also performing well in the realm of human capital development.

The history of economic governance in Singapore can be divided as follows:

- ▶ **Colonial period (1819–1963):** Singapore was under the administration of East India Company and the India Office of the British Government (1819–67), then under the British Government’s Straits Settlements colony (1867–1945). It became a British Crown colony from 1946 to 1963, but progressively gained independence. Singapore’s development in the early twentieth century was characterized by its economic activities as a staple port. Under British management, Singapore was made a business centre to handle rubber and tin export. This led to the early development of financial activities related to raising capital for port activities. Singapore’s successful economic development attracted more workers than what the new “modern” sector jobs could absorb. Hence, during this period, the labour market was marked by informality and labour surplus.
- ▶ **Developmental state period (1959–present):** Prime Minister Lee Kuan Yew was democratically elected in 1959, precipitating the independence of Singapore as an independent Republic (1965 onwards). Lee’s Administration initiated systematic economic planning, piloted by the Economic Development Board (EDB) and ad hoc public governance bodies. Through its control over land, the Government managed foreign investment in the national territory. It became a core objective to increase labour productivity and upgrade the industrial apparatus, achieved in part through the provision of incentives for multinational corporations, including wage controls. Education and skill policies favoured a highly-skilled resident labour force.

As it was during the development state period from 1959 onwards that the groundwork for the growth of formal employment was set, the remainder of the case study focuses on this period through to the present.

### 4.3.2. A firm grip by the State fosters industrialization and modernization

By the mid-twentieth century, poverty, widespread casual employment and under-education were main concerns for Singapore's policymakers. Economic development during the colonial period had attracted a large inflow of casual labourers,<sup>30</sup> with the supply of labour easily absorbed within the new "modern" sector. Almost all casual labourers were employed through contractors or subcontractors, and turnover was high. The Singapore Harbour Board, for example, was able to hire around 9,000 casual workers per day. The combination of rapid labour force growth and the absence of widespread industrialization resulted in a predominantly service-based population (Huff 1995). By 1957, only 6.9 per cent of the working population were engaged in agriculture, compared to 15.7 per cent in manufacturing and the remaining nearly 76 per cent in services.

#### Building up the local manufacturing base

In 1959, the People's Action Party won the elections and came into power in self-ruling Singapore. The main message brought forward by Party was to meet the domestic needs of the people (Ann 2016). The new Singaporean Government headed by Prime Minister Lee Kuan Yew sought to tackle poverty and increase productive employment through import substitution strategies that revolved around boosting the manufacturing sector, including through protective tariffs and quotas.

The Government granted tax holidays to firms investing in Singapore, especially those operating through labour-intensive production. The tax holidays were regulated in the Pioneer Industries Ordinance and the Industrial Expansion Ordinance of 1959. One of the first sectors to benefit from the scheme was the petrochemicals industry.<sup>31</sup> In 1961, the Government formed the Economic Development Board (EDB) as the main body to implement the State's industrial policies. The EDB's authority includes giving incentives, establishing industrial estates, and investing in new and expanding companies. The success of such strategies is evident in the real GDP annual growth of 6 per cent seen between 1960 and 1965, and the creation of more than 21,000 jobs in manufacturing (van Elkan 1995). However, the unemployment rate remained relatively high, reaching 8.9 per cent in 1966 before starting a steady decline lasting nearly two decades (figure 16).

Even in the early days of industrialization, the Singaporean Government placed a strong emphasis on the improvement of skills and the education level of the workforce as being required in the continued process of industrialization. In 1960, the Government introduced a Five-Year Plan for education,<sup>32</sup> the objectives of which were to equip the workforce with knowledge of basic mathematics, sciences and other technical competencies necessary to modernize the economy. Five years later, the enrolment rate in secondary school rose by 94 per cent and university enrolment rose by 70 per cent (van Elkan 1995).

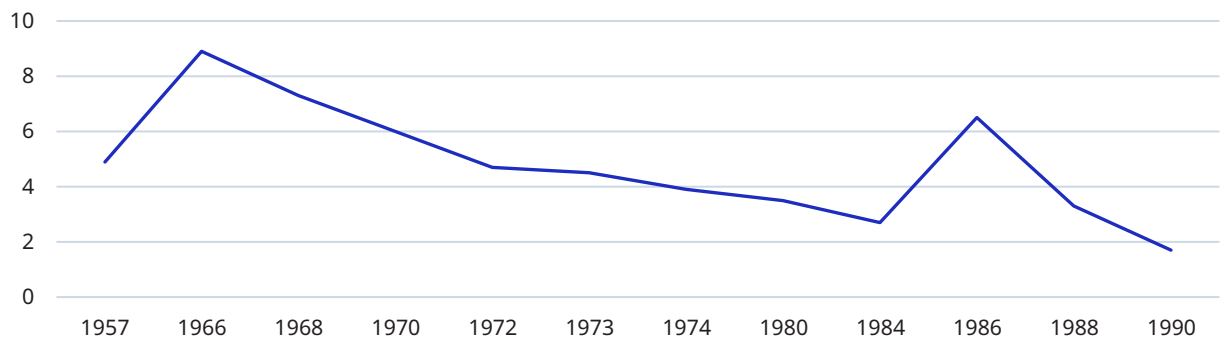
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30 The inflow of migrants to Singapore were mostly from China, India, Indonesia and Peninsular Malaysia. The largest immigrant group were the Chinese (Fong and Lim 1981).

31 Shell was granted pioneer status in 1961.

32 For more information, see Goh and Gopinathan 2008.

► **Figure 16. Singapore unemployment rate, 1957–90 (%)**



Notes: Data for 1957, 1970, 1980, and 1990 are census figures. Data from 1957 to 1980 (inclusive) refer to the unemployment rate of persons aged 15–64 years, and from 1984 onwards, it refers to persons aged 15 years and over.  
Source: Huff 1995.

### Attracting foreign investment for export-led growth

The Government showed an adaptability in the face of a changing economic environment. Despite the success generated by import substitution industrialization, Singapore shifted its strategies due to the following factors. First, the domestic market was limited, and thus the firms could not fully reach economies of scale in manufacturing. Consequently, unemployment remained a serious problem in Singapore. Second, import substitution measures caused negative impacts on exports and problems related to the balance of payments (van Elkan 1995). At the same time, the United Kingdom decided to withdraw its military forces. British expenditures for their bases in Singapore accounted for 20 per cent of employment and 18 per cent of Singapore's GDP (Yeo 2004).

Since 1965, the Government has nurtured large state-owned enterprises and attracted multinational corporations to invest in Singapore to speed up economic modernization and fix the unemployment problem (Carney 2014). One of the features of Singapore's development model was high foreign direct investment, which paved the way for multinational corporations' domination in the manufacturing export sector.

Singapore attracted foreign investment through fiscal incentives, such as tax holidays and reductions. All of this was coupled with an efficient government bureaucracy. One of the channels to give fiscal incentives has been through the so-called "pioneer status" granted through the EDB, which comes with time-limited tax exemption and other benefits.<sup>33</sup> By 1971, pioneer firms accounted for 47 per cent of total manufacturing employment, compared to just 0.9 per cent in 1961 (table 7). In 1991, the pioneer firms still generated 63 per cent of manufacturing value-added, 74 per cent of manufacturing exports and 48 per cent of manufacturing employment (van Elkan 1995). Service companies who got pioneer status also enjoy similar tax exemption for five to ten years (Ho and Hoon 2000).

<sup>33</sup> The Pioneer Industries Ordinance and the Industrial Expansion Ordinance, whose main objectives were to promote new investment and expansion in the industries essential to the economy, were introduced in 1959.

► Table 7. Breakdown of pioneer manufacturing establishments in Singapore, 1961–96

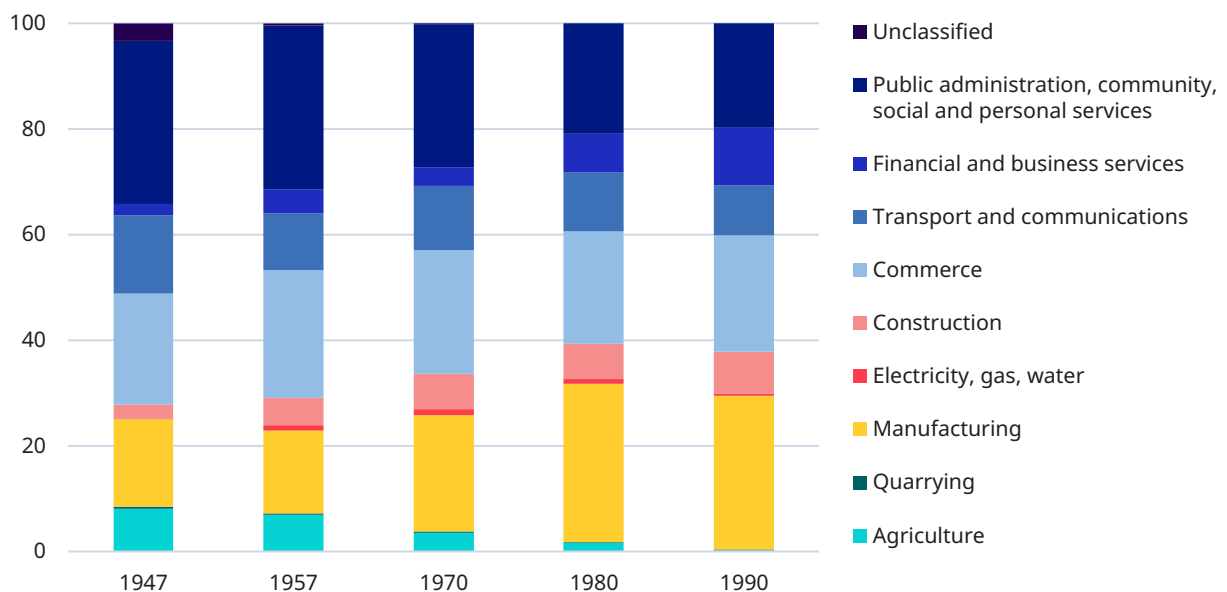
Year	No. of establishments	No. of workers	Output (millions SGD)	Share of workers (%)	Share of output (%)
1961	7	241	36	0.9	7.0
1966	165	11 102	490	21.7	37.4
1971	291	66 124	2 403	47.0	51.1
1976	293	87 405	8 921	42.2	58.2
1981	432	116 907	22 857	41.5	62.1
1986	427	115 951	22 351	47.0	60.0
1991	432	170 584	46 077	47.6	61.8
1996	397	170 780	82 418	46.7	69.0

Source: Yearbook of Statistics, Singapore (various years), as cited in Ho and Hoon 2000.

The principal target for government-implemented incentives in the early days were export-based manufacturing firms, as regulated in the Economic Expansion Incentives Act of 1967. The resulting increase in foreign investment enabled further expansion in manufacturing employment, including in the electronics, petroleum refining, ship repair and textile sectors. As many as 147,500 manufacturing jobs were created from 1967 to 1973. The annual employment growth rate increased from 4 per cent in 1973–75 to 4.8 per cent in 1976–78.

Between 1957 and 1970, the share of employment in the manufacturing sector grew from 15.7 per cent to 22 per cent, with shares continuing to increase till a peak of 30.1 per cent was reached in 1980 (figure 17). The financial services sector also benefitted from increased flows of foreign investment.

► Figure 17. Employment in Singapore by sector, 1947–90 (%)

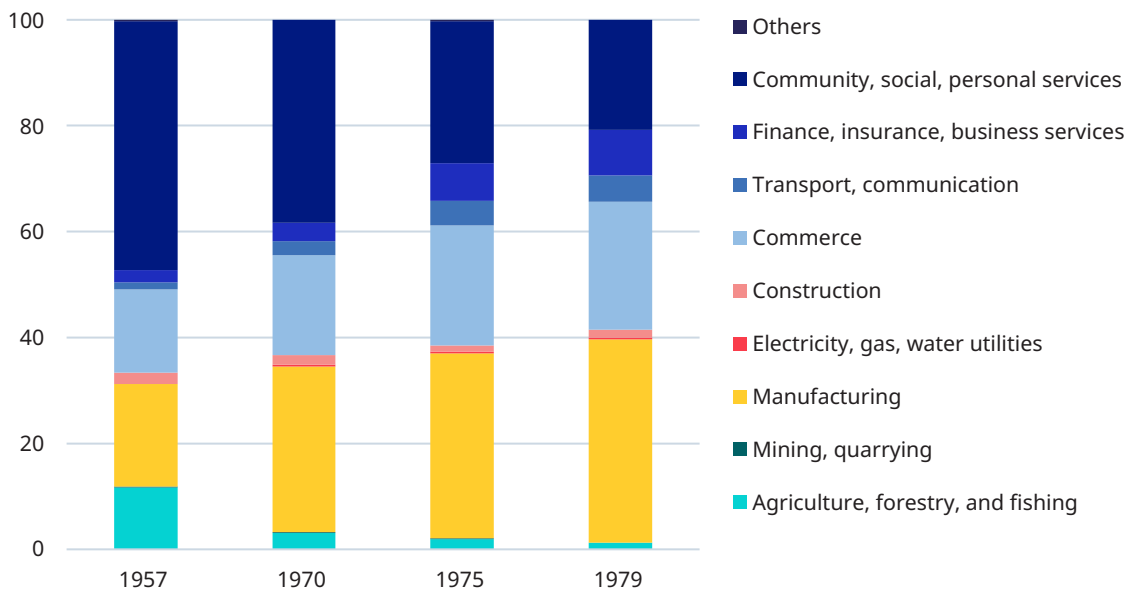


Source: Singapore censuses, various years, as cited in Huff 1995.



Women also increasingly participated in the workforce from the industrialization period. The female labour force participation rate jumped from 21.6 per cent in 1957 to 41.9 per cent in 1979 (Wong 1981). In 1957, manufacturing accounted for only 19.4 per cent of female labour force participation, but it almost doubled to 38.4 per cent in 1979. Two other sectors that were also important for women’s employment were commerce and community, social, personal services, with 24.2 per cent and 20.8 per cent of women workers employed in the two sectoral groups, respectively, in 1979 (figure 18).

► **Figure 18. Female employment in Singapore by industry, 1957–79 (%)**



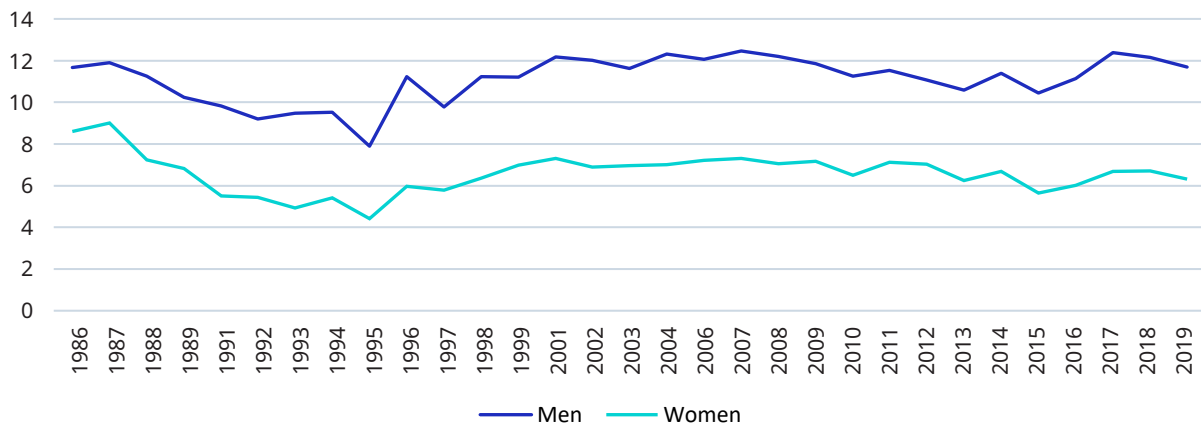
Source: Singapore Department of Statistics and Ministry of Labour, as cited in Wong 1981.

### Diversifying through industrial upgrading and services

Once full-employment objectives were met through foreign investment in labour-intensive industries, the Government then chose to direct economic policies towards expanding investments in technology- and skill-intensive sectors – such as computers, electronics, machinery and pharmaceuticals – to create more value-added. The EDB granted five-year tax holidays for firms to encourage foreign investment in high-technology industries and offered incentives for companies already operating in the country to upgrade their workers’ skills, increase automation and improve their investment in technology. Economic diversification continued from the 1980s, with the EDB actively facilitating the expansion of the production and export base toward business and financial services (van Elkan 1995).

Prior to the 1980s, the percentage of overall own-account workers and unpaid family workers (vulnerable employment) in Singapore was significant – that is, it accounted for more than one-fifth of total employment (22.6 per cent in 1957 and 20.7 per cent in 1970) (Yun 1994). However, by the late 1980s, the vast majority of workers in Singapore were paid employees. Vulnerable employment among men had declined from 11.6 per cent in 1986 to 7.9 per cent in 1995. For women, the figures declined from 8.6 per cent in 1986 to 4.4 per cent in 1995. It went up again after the mid-1990s, but Singapore managed to maintain the rate below 13 per cent for men and 8 per cent for women (figure 19).

► Figure 19. Vulnerable employment share in Singapore by sex, 1986–2019 (%)



Source: Author's own calculation based on ILOSTAT database.

### 4.3.3. Labour market institutions as instruments of economic strategy

Regulatory instruments and their implementation have played a key role in Singapore's development as an important aspect of the Government's strategy to attract foreign direct investment. Labour market regulations were thus designed with the aim of enhancing the investment climate and containing labour costs. In 1968, the Singaporean Government passed two labour laws: the Employment Act of 1968 and the Industrial Relations (Amendment) Act. Under these Acts, labour issues were well-defined and (low) wages fully regulated, which was seen as necessary to attract investment (Fong and Lim 1981). To limit staff turnover in developing industries, the Employment Act of 1968 removed the right to retrenchment benefits for employees who were employed for less than three years. Employees who left before seven years of continuous services were not entitled to retirement benefits other than what was payable under the Central Provident Fund (CPF) Ordinance. Lastly, the Act also removed bonus payments or *ex gratia* payments other than those given as incentives for employees to reward productivity performance (HistorySG 2014).

The Employment Act of 1968 regulated that wage negotiation should be based on efficiency and economic growth. It set minimum employment conditions, overtime pay, retrenchment benefits and other fringe benefits (Fashoyin 2010). In addition, the Industrial Relations (Amendment) Act did not allow bargaining for recruitment, promotion, reclassification, transfer, retrenchment or workers' dismissal. In the Trade Unions (Amendment) Act, the role of trade unions was defined to promote good industrial relations as well as to raise productivity for the mutual benefit of employers, employees and the nation. The ruling party exerted a tight control over the National Trade Union Congress (NTUC), including through the provision of funds, policy initiatives and personnel (Sing 2004). As the State supported the NTUC politically and economically, they expected the NTUC to show support in return.

Wage policy, directed through the tripartite National Wages Council (NWC) became an important instrument for the state-directed employment strategy. By the mid-1970s, state incentives had successfully brought large-scale investment by multinational corporations, and Singapore's unskilled labour force was fully absorbed. This then led to growing concerns over labour shortages and potential wage inflation, which resulted in the NWC closely controlling wage growth by recommending wage increases that remained below consumer price inflation (offset in part by the use of widespread housing subsidies). Wage restraint helped Singapore continue to position itself as a favourable haven for foreign direct investment.

When the Government began its diversification strategy, seeking to promote higher value-added growth with higher technological content, wage policy was again put into practice, this time with the NWC pushing wages higher as a means to encourage enterprises to substitute capital for labour. As expected, actual wages grew quickly and even exceeded the NWC guidelines in 1983–84 (Carling 1995). To offset resulting entrenchments, the Government established the Skills Development Fund, financed by levy (4 per cent of wages in 1980) on employers to ameliorate the skills and expertise of workers and to train retrenched employees.<sup>34</sup> The Government also rolled out other training and adult education programmes.

In 1992, one of the landmark wage policies was the introduction of “flexi-wage” system. Within this system, the wage was composed of several tiers: (1) the basic component; (2) the basic wage’s annual complement; and (3) a variable performance bonus. Henceforth refraining from giving quantified recommendations, the NWC stated in 1993 that any increases of the basic wage had to be moderate and below the growth of productivity. This legislation was a turning point to enable a more flexible labour market. Around 71 per cent of enterprises adopted the flexible wage system by 1992 (Carling 1995).

The NTUC was instrumental to increasing flexibility within the labour market following economic restructuring and financial crisis in the late 1990s. Under the premise of preventing job losses in the formal economy, the NTUC urged employers to adopt flexible monthly wages so that workers could be protected from retrenchment. At the same time, it urged enterprises that were doing well to increase wages. For those workers who were temporarily laid off, the NTUC employment and training centre offered new training programmes (Sing 2004). Furthermore, the NTUC also developed a role in delivering affordable goods and services (for example, supermarkets, insurance, childcare, eldercare and holiday homes) through cooperatives (Kuruvilla and Liu 2010).

The Government’s firm hand over labour unions and the tripartite process has enabled the imposition of wage controls and thus allowed the economy to remain competitive. Despite the suppression of workers’ wages and rights, most citizens have continued to support the ruling party as it played the paternalistic role of fulfilling citizens’ basic needs for education, employment and housing.

#### 4.3.4. Regulations on micro, small and medium enterprises

In the development years of Singapore (1960s to early 1980s), SMEs functioned mainly as the local links of the supply chains of multinational corporations (Lee and Tan 2002). In the context of the industrialization programme at that time, the Government realized that it needed to encourage more local businesses to venture into manufacturing to transform from a traditional trading economy to a modern industrial economy (Soon 1984).

The EDB created the Light Industries Service in 1963 to promote the capacity development and growth of local small industries. The Light Industries Service was responsible for upgrading and modernizing light industrial setups, give technical advice and granting financial assistance to small industries.<sup>35</sup> When the Development Bank of Singapore was set up in 1968, it was granted the Light Industries Service’s financing function. Furthermore, in 1976, the Government created the Small Industries Finance Scheme to give financial assistance to viable small companies. This initiative was part of the Government’s effort to develop local supporting and subcontracting industries for multinational corporations operating in Singapore. Thus, these local industries benefitted from assured demand and technology transfer (Lee and Tan 2002).

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34 With women workers concentrated in jobs exposed to external shocks (such as light manufacturing in the electronics, textile and garment sectors), they were often more exposed to retrenchment. The recession in 1974 provides a case in point, wherein 79 per cent of 16,900 retrenched workers in Singapore were women (Wong 1981). Moreover, wages and salaries in female-intensive industries tended to be depressed compared to general wages (W.K M. Lee 1997).

35 Defined as manufacturing establishment with less than 50 workers per shift and investment in equipment and machinery less than 250,000 Singaporean dollars.

As Singapore started to focus on technological catch-up, it established Small Industries Technical Assistance Scheme in 1982 to help local companies access new technology through multinational corporations. This scheme enabled small companies to hire experts (including from a pool of 10,000 expatriate technical personnel) by paying only 10 per cent of the cost, since the rest was subsidized by the Government (Soon 1984). Later, in 1989, the Government launched a master plan that outlined the strategies to support the continued growth of local SMEs (Tan 2007).

Registration of business in Singapore is regulated under Business Registration Act, which was first enacted in 1973 and revised over time. As stipulated in the revised edition of 1985, “every person carrying on business in Singapore shall make an application to the Registrar in the prescribed manner for registration under this Act” (section 5(1)). The information for registration submission appears to be straightforward – such as, business name, general nature of business, principal place of business, present name, etc. Although little information could be found about the business registration process prior to the Act, one can assume that strict state controls and the provision of government incentives would have brought most SMEs within the realm of the formal economy. In current times, informality in Singapore’s business sector remains low, and businesses are still motivated to register (now with the Accounting and Corporate Regulatory Authority). Proof of registration is one of the requirements for key business transactions, such corporate bank account and credit applications (OECD 2020).

The Singaporean Government also took measures to address hawkers (that is, street vendors) who were previously engaged in the informal economy. In the 1968, the Government conducted a national census and gave 18,000 licenses to hawkers and outlawed the rest. Then, the Housing Development Board centralized hawkers into hawker centres that were built along with housing projects. The first ever modern hawker centre was established in 1971, and it was tied to Housing Development Board residential estates (Tam 2017). It was mandatory for itinerant hawkers and stallholders to get licensed.

#### 4.3.5. Provision of social services

Although the Singaporean Government has a proactive role in coordinating the economy, it does not have a high level of public spending for social security, nor has it achieved universal coverage.<sup>36</sup> This welfare regime trajectory is similar to other East Asian economies such as Taiwan (China), Hong Kong (China) and the Republic of Korea. The State expects the citizens to have enough financial capacities by continuously participating in the formal workforce so that they can have income and savings to fund their housing, healthcare services and retirement (Teo 2017). Such a system stands in contrast with the pooled-risk systems of some Western welfare states where benefits are not directly tied with personal contributions.

The Central Provident Fund (CPF) was set up in 1955 as a compulsory savings scheme for employees complemented by employer contributions, with channels directed towards housing, insurance and education, retirement and investment, and health. As a saving scheme, the CPF contributed significantly to the national savings and thus relieved the government budget from funding social expenditures (Lee and Qian 2017). The CPF contributions are payable when there is a relationship between an employer and an employee under contract of service. Contributions are payable for Singapore citizens and permanent residents who are working in Singapore under contract of service and employed on a permanent, part-time or casual basis (Singapore 2021). The CPF seems to provide an adequate safety net for citizens with continuous employment (Beng 2012).

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36 In the mid-2000s, Singapore’s average spending for financing welfare and social security was less than 7 per cent of its GDP. This was relatively low compared to OECD countries (20.5 per cent), European Union countries (27 per cent) and Japan (18.6 per cent).

Efforts have been made by the Government to extend coverage of the basic safety net since the 1990s. The Government extended the CPF for resident self-employed persons<sup>37</sup> earning more than 6,000 Singaporean dollars in July 1992 through compulsory contribution (Choon and Low 1996). Moreover, the Workfare Income Supplement was implemented in 2007 as a social assistance aimed at older low-wage workers. By reducing the CPF's employee contribution rates for older low-wage workers, the Government hopes to lower hiring costs and boost the employability of older low-wage workers. Eligible self-employed and informal workers (without formal labour contract) could also benefit from this programme so long as they contribute to the Medisave account (Choon 2010). Finally, the Work Injury Compensation Act extended social protection to foreign workers. Although the Act does not cover foreign domestic workers, employers are expected to purchase mandatory health insurance and personal accident insurance for them (Nordin et al. 2018).

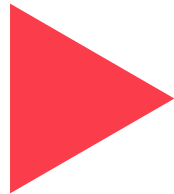
In 1973, the Women's Sub-Committee of the NTUC was formed (Haque 2000). Currently known as the Women's Committee, its members are women leaders from NTUC-affiliated unions in all industries and sectors. Principally, the Women's Committee aims to develop the capabilities of women leaders as workplace advocates on issues affecting women, including career progression (NTUC, n.d.). In 2007, the Tripartite Workgroup on Enhancing Employment Choices for Women was set up. Chaired by the NTUC with the participation of representatives from government, employers and unions, the main objectives of the workgroup were to facilitate and encourage women to return to the workforce. In the same year, the workgroup launched the Flexi-Works! Scheme, which involved 3 million Singaporean dollars in funding to facilitate the recruitment of employees aged 35 and older on flexi-work or part-time arrangements (Singapore Tripartism Forum, n.d.).

#### 4.3.6. Summary

- Singapore's development trajectory shows that its developmental state model enabled the rapid growth of paid employment in the industrial and services sectors. Initially faced with informality and labour surplus, the State took an active role to formulate and implement a development strategy through industrial planning that put employment creation at its core. In doing so, the Government adopted a two-pronged approach by: (i) attracting foreign investment through favourable business environment and tax breaks; and (ii) facilitating the formalization of SMEs by providing incentives and eliminating excessive/unnecessary rules.
- Singapore's formalization pathway is marked by firm state control of labour market institutions, including tripartite mechanisms, considered necessary to provide a conducive environment for investment, competitiveness and economic growth. Regulatory enforcement and adaptability to changes are important features in Singapore's economy.
- Strict state controls and the provision of government incentives have been sufficient to bring SMEs within the realm of the formal economy.
- Social protection in Singapore mainly relies on individual families and is linked to employment. The Central Provident Fund, a compulsory savings scheme for employees, was originally intended for old age retirement but was expanded to also cover housing, health and education. The Government has also extended some aspects of social protection coverage to low-wage workers, the self-employed and foreign workers through various programmes.
- Women's participation in the economy increased as industrialization progressed, but they were concentrated in jobs that are exposed to external shocks and often bear less favourable terms. Foreign workers are concentrated in low-skilled and low-wage occupations. Even though more could be done, there are already some specific measures – coupled with general principles of non-discrimination – attempting to create better employment conditions for all.

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37 A "self-employed person" is someone who earns an income by buying and selling goods or from providing professional or personal services. Examples of self-employed persons include hawkers, taxi drivers, freelancers, sole proprietors or a partner in a partnership (Central Provident Fund Board, n.d.).

 **5**

## Lessons learned on formalization pathways

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The commonalities in the historical pathways of Japan, the Republic of Korea and Singapore that appear to be most closely linked to outcomes related to formalization are the: (i) strong direct involvement of governments in industrial upgrading; and (ii) the coordination mechanisms that have framed labour relations.

### 5.1. Direct intervention by government in industrial upgrading and comprehensive state planning

The three study countries have benefited from direct intervention by their respective governments using multiple channels to achieve high economic growth. The three countries have relied on targeted industrial policies combined with thorough monitoring, as well as the nationalization of some strategic activities by the State. Moreover, to achieve economic growth based on value-chains and skills upgrading, a legal framework favourable to formal employment was built.

**Sectoral development:** The structural change from agriculture to manufacturing was a key factor of employment formalization in the three countries. Such shifts were driven by state industrial policies promoting the manufacturing sector and land reforms that liberated workers from rural areas to be absorbed into urban areas. As development policies promoted large-scale manufacturing, employment shifted away from traditional sectors to primarily paid employment in the industrial sector. The timeline in the three countries was as follows. The shift towards manufacturing started in Japan during the Meiji era (1868–1912) and it was under Japanese colonial rule that it began in Korea in the late 1930s. As a British harbour in the nineteenth century, Singapore already had limited agricultural activities, but the share of manufacturing grew steadily from the late 1950s onwards. Governments in the three countries also dedicated a fair share of state subsidies to SMEs to promote a more balanced industrial structure and to enhance innovation.

**State monitoring:** In the footsteps of Japan, the Republic of Korea and Singaporean developmental States had similar processes in the post-war period for export promotion and the provision of incentives for participating. The technicalities of industrial planning were different; it was more related to informal networks in Japan, while in the Republic of Korea and Singapore, the bureaucracy developed complex monitoring and evaluation systems for targeted incentives. In the three countries, a grid of ministries and public agencies drove industrial policies dedicated to increasing firms' production and productivity. This institutional layer promoting governments' industrial strategies and ensuring the allocation of capital – with some independence from electoral logic – was a crucial element that allowed long-term planning throughout the decades. Because the toolbox of the developmental States – including tax incentives, targeted subsidies, land grabbing and performance monitoring – was only made available to legally operating corporations, state planning and monitoring in the roll out of industrial policy had the byproduct of boosting formal registration and adherence to state expectations vis-à-vis labour practices. Incentives to register went beyond manufacturing and exporting firms to reach SMEs in the service sector.

**Growth of the public sector:** State planning involved the development of new government institutions and the growth of the public sector to enable the delivery of industrial upgrading strategies, thereby increasing formal employment through another route. Indeed, part of manufacturing in the Republic of Korea was nationalized (such as tobacco and highway and railway construction and operation). Although informal and non-regular employment can also be a prerogative of public organizations, those organizations are within easier reach of governments than the corporate sector when ensuring labour law compliance.

**Participation in global value chains:** The three countries studied benefited from a specific context of world trade integration that enabled them to secure substantial governance over value chains. Interestingly, despite their differing strategies around international integration, employment patterns were similar. Indeed, to some extent, the city-state of Singapore adopted a divergent strategy compared to the one of Japan and the Republic of Korea. Contrary to the infant industry promotion of the latter two, the Singaporean strategy for economic development involved actively attracting foreign multinational companies. It aimed to become the “hub” of Asia by extolling the virtues of a business-friendly environment (including a low number of industrial disputes) and a wage-controlled labour force. Given the steepening of the value-added across stages of the production process, developing economies should focus on increasing vertical integration of their value chains in order to progressively govern activities with the highest value-added (such as research and development and marketing/distribution).

**Labour laws fit economic objectives:** The rapid absorption of the labour surplus in the manufacturing sector in all three countries led to labour shortages for skilled workers and encouraged firms to secure the commitment of their workers through permanent contracts and extra benefits. The developmental States encouraged this trend by enacting labour laws on minimum employment conditions, overtime pay, retrenchment benefits, etc., and by providing ambitious education and skill development schemes. Although regularized employment was initially reserved for skilled workers in large companies, it was then expanded to other segments of the national labour markets. The Japanese labour force was already well educated in the post-war period, which made training employees a responsibility of companies. In the Republic of Korea and Singapore, governments invested massively in the education system and vocational training. The private sector was also mobilized in this course towards upgrading skills, through state subsidies for on-the-job training in the Republic of Korea and through mandatory contributions in Singapore.

## 5.2. The coordination of labour relations and welfare provision

**State corporatism and the role of trade unions:** During the golden age of these developmental States, state corporatism – with a meager voice for labour – was promoted. The collective organization was restricted to the company level, focused on regular skilled workers, and militancy was forbidden. In the Republic of Korea and Singapore, only one national umbrella union was authorized, and it became the favoured interlocutor for the government.

State corporatism in the three countries took a specific form for mitigating labour demands. A tight relationship between the corporate sector and the government was a defining feature of the developmental period. In Singapore, the ties were especially close between the NTUC and the ruling party. The state corporatism found in the three countries was based on the limited voice of labour, which was assured through different levels of repression. In the post-war period, the developmental States were actively working to prevent the spread of Communist ideas in factories, which was done through the control of organized labour and collective action. Nonetheless, as the improvement of living conditions was at the core of the social compromises, the governments ensured that employers sustained wage increases as long as production grew.

**Limited welfare states:** Because of the relatively important investment of East Asian countries in education and human capital, many scholars characterize the welfare regimes of these countries as “productivist”, which suggests that in these countries welfare and social security are subordinate to the production process (M. Kim 2015, 2). Indeed, as seen in the case studies, state-allocated social protection during industrialization meant access to only a basic safety net. As part of the characteristics of state corporatism, corporations were put in charge of providing social entitlements like health insurance and retirement, which means that workers depend heavily on their employment status (Peng 2012; Kambayashi and Lechevalier 2021).

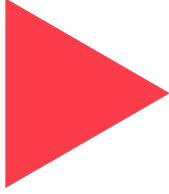
The scope of welfare has been progressively extended in all countries as they coped with periods of decreasing economic growth, reduced numbers of regular employment and demographic challenges. However, social protection expenditures remain exceptionally low, especially in the Republic of Korea and Singapore, given their respective national levels of income.

## 5.3. Addressing labour market dualism and inequalities

Although the transition from the informal economy was substantial and almost complete in the late 1970s in all three countries, several pain points need to be mentioned. First, the main deficiencies flagged concern excluded subgroups of the population from standard employment, namely women, and in the case of Singapore, migrant workers. Second, the rise of non-regular workers in these economies points towards the creation of a new layer in the labour market that is framed within the labour laws but without access to job security or full access to social security provision.

As all three countries struggle to find solutions to extending equal employment opportunities and conditions of work to all workers, there is an important lesson to the seemingly finite capacity of States in their development models to bring the benefits of formal employment to all. The costs of the Japanese employment model, as applied in both Japan and the Republic of Korea, proved incompatible with the changing competitive industrial environment, and invoked the emergence of the parallel flexible workforce. New mechanisms to redress disparities are being adopted in all three countries, yet results remain limited and correcting labour market duality – especially with the rapid growth of platformization – remains a top future of work issue for all countries concerned.



 **6**

## Can pathways be followed in other countries?

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In contrast to the predominant “one-size-fits-all” discourse, capitalism in Asia followed multiple paths (Boyer, Uemura, and Isogai 2012). The present case studies followed this diversity paradigm and analysed the historical socio-economic pathways that facilitated the creation of labour markets that were dominantly formal in nature. The case studies sought to emphasize the complementarities between national political economy and labour market dynamics. The comparative approach aims to bring forward factors and deficiencies and to pinpoint possible strategies for improvement.

Previous research into economic development and late industrialization emphasizes the importance of considering historical context, time and space. When and where it happened matters. Different eras of industrialization can be distinguished, starting with the initiator of the industrial revolution, the United Kingdom in the late eighteenth century, followed by late developers in the late nineteenth century. However, the “golden age” in Japan, the Republic of Korea and Singapore – where rapid growth, technological upgrading and employment formalization went together – was not general. Instead, it is intrinsically related to their localization in East Asia, the geopolitical context of the Cold War combined with post-war reconstruction, as well as the structuring of the global value chains at the time (Gereffi and Wyman 2014). In those cases, the employment content of industrialization and its formalization benefited from the simultaneous transition from agricultural to manufacturing and from informal to formal employment.

Since the 1990s, developing economies have entered the era of “compressed development” (Whittaker 2020, 11). They have suffered from the increasing fragmentation of value chains coupled with the increasing value-added of production stages that are intensive in intangible assets, usually captured by leading firms in high-income economies (Durand and Milberg 2020). The usual structural change from the agricultural to the manufacturing sector is limited; the labour surplus tends to be absorbed by the service sector, where productivity is low and labour arrangements weakly binding (Park and Shin 2012). In addition, new trends such as platform economies impede employment formalization. The implications for labour relations have been the increasing stratification of labour markets with rising labour income inequalities. While labour dualization used to be the prerogative of high-income de-industrializing economies (including Japan and the Republic of Korea), developing countries are nowadays experiencing a double dualization of formal versus informal employment and regular versus non-regular employment (Whittaker et al. 2020).

The COVID-19 pandemic has reiterated the need for state intervention, which opens a window of opportunity for a renewed strategy to increase employment formalization in Asia and the Pacific. Although developing economies face structural barriers that separate their pathways from those taken by Japan, the Republic of Korea and Singapore, policy tools inspired by previous developmental States can provide a fruitful way (Debanes and Lechevalier 2014). First and foremost, governments should engage with economic planning and monitoring activities directed towards economic and social objectives. Such an upgrading relies heavily on building and enhancing a legal framework that incentivizes business registration on one side and skill development of employees on the other. Special attention should be given by governments to strengthening the social contract by ensuring better working conditions for all persons in the labour force, especially women, migrant and non-regular workers. In addition, such a high level of strategic control and planning implies that governments have substantial room to maneuver when creating a sufficient political space. Authoritarian governments took this political space in the former East Asian developmental States, but the increased democratization demands new configurations and political compromises (Magara and Amable 2017). Hence, democratic control over state planning should be safeguarded, and labour-inclusive mechanisms should be institutionalized at all levels of bargaining.

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## ▶ **Development and formalization in Asia: Insights from Japan, Republic of Korea and Singapore**

This report examines the historical socio-economic pathways that facilitated the creation of labour markets that were dominantly formal in nature. The case studies of three advanced economies – Japan, Republic of Korea and Singapore – emphasize the complementarities between national political economy and labour market dynamics and draws lessons, where possible, for the emerging economies of today.

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