

# Varieties of Labor Market and Social Security in East Asia: Tackling the Barrier of Informal Employment<sup>1</sup>

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Wide variations exist in the characteristics of the labor market in East Asian countries. In order to upgrade and expand the existing social security system, it is necessary to base the institutional design of such system on an in-depth understanding of the characteristics of the labor market of each country—in which the issue of informal employment is pivotal. In this study, I argue that in order to expand social security coverage for informal workers, it is necessary first to clarify and operationalize the concept of informal employment. This paper first provides a schema that explains how various forms of informal employment emerge from the interaction between state regulations and the labor market. Next, I examine strategies aimed at expanding social security coverage.

In the first section, after presenting an overview of unemployment in East Asia, I maintain the necessity of focusing on various types of informal employment, such as the self-employed, migrant workers who shuttle between wage employment and self-employment, and workers who are not covered by unemployment insurance.

In the second section, the literature on informal employment and related discussions within the International Labour Organization (ILO) are reviewed. Then, I explain the perspective that informal employment develops out of the interaction between the regulatory capacity of the government and the characteristics of the labor market.

In the last section, based on a review of the preceding sections, I propose a novel schema to capture the phenomenon and attempt to measure the scale of informal employment. Finally, I argue for the need for governments to enhance their capacity to formalize each type of informal employment.

## 1. A New Age of East Asian Unemployment

East Asia is witnessing a new age of unemployment. In addition to the increase in the unemployment rate, we need to look at the structural changes taking place in the labor market that are behind this increase. We also need to focus on the issue of

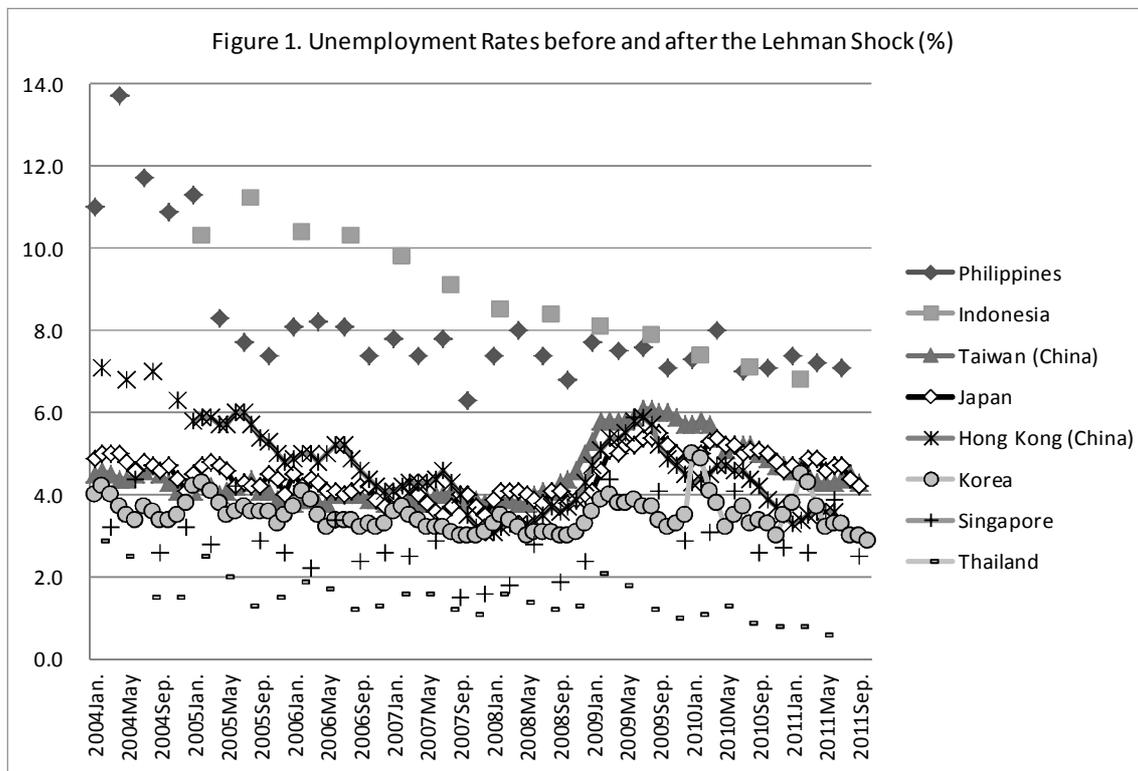
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informal employment, which does not appear in unemployment statistics.

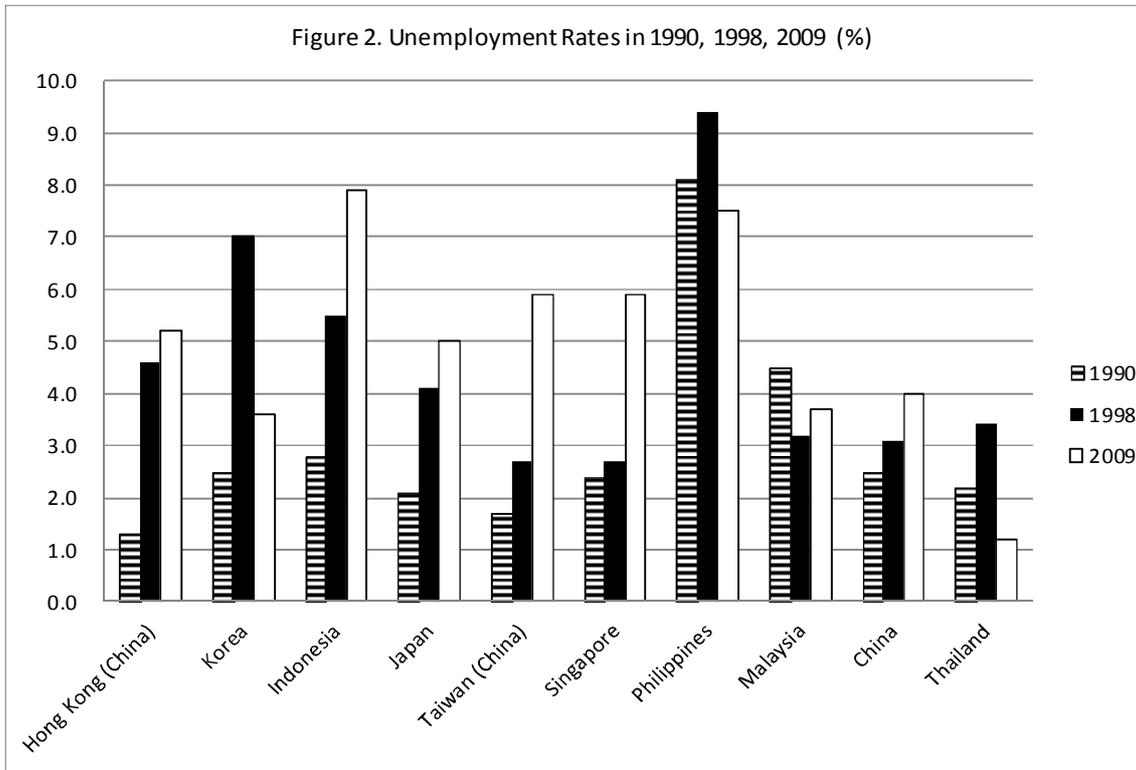
### Trends in Unemployment

The various impacts caused by the Lehman shock that took place in September 2008 do not appear uniformly. Figure 1 charts the monthly unemployment rates for several East Asian countries before and after the shock.



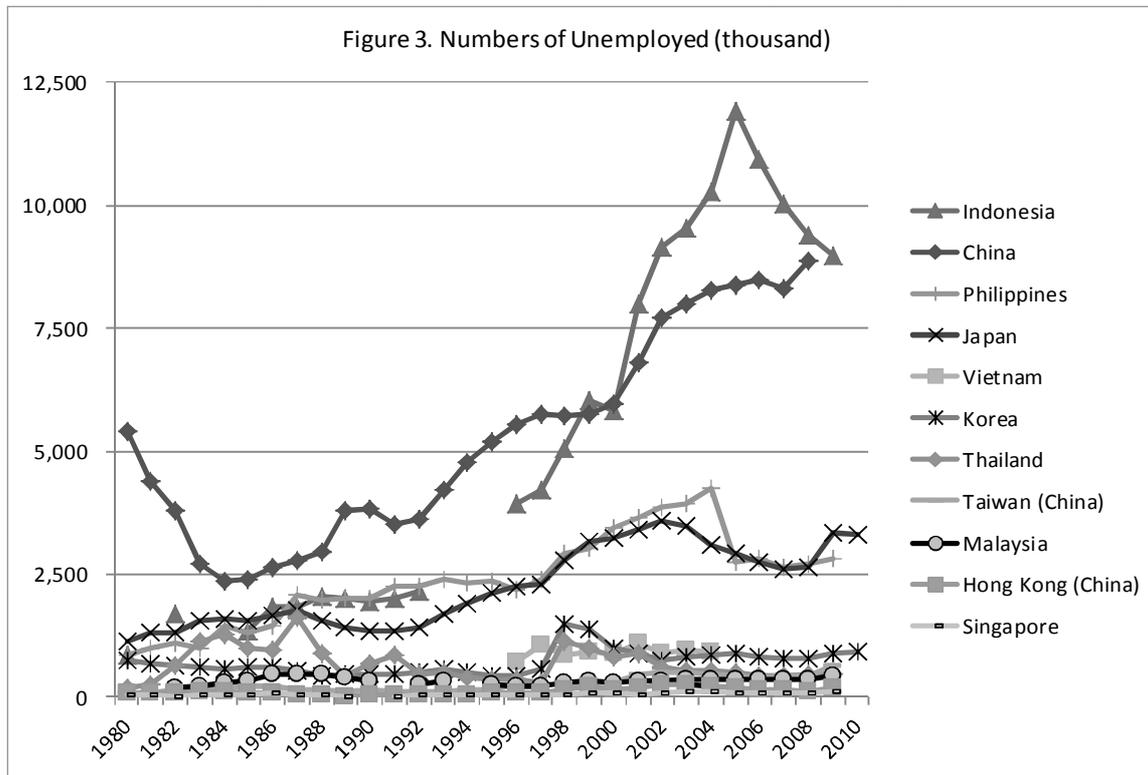
Data Source: ILO Department of Statistics, *Short Term Indicators of the Labour Market*, 2011. (<http://laborsta.ilo.org/sti>)

There was an apparent increase in unemployment after the Lehman shock only in Japan, Taiwan (China), Hong Kong (China), and Singapore—all of which have wage employment-centered labor markets. As for Indonesia, Thailand, and the Philippines, where self-employment is dominant, there were no short-term impacts.



Data Source: ILO, *Key Indicators of the Labour Market*.

Figure 2 compares the unemployment rates in various East Asian countries in 1990, 1998 (after the Asian economic crisis), and in 2009 (after the Lehman shock)—which shows a more dramatic change. Hong Kong (China), Korea, Indonesia, and Japan experienced a sharp rise in unemployment around 1998, while Taiwan (China) and Singapore experienced one around 2009. On the other hand, there was no such clear change in the Philippines, Malaysia, China, and Thailand. Here we should be careful with the different definitions of “unemployment” as used in each of the countries. In China, jobless rural residents are not counted as being “unemployed;” while the unemployment rate in Thailand excludes the “seasonally inactive labor force;” and the unemployment rate in Indonesia after 2000 includes discouraged workers (Kamimura 2010).



Data Source: ILO, *Key Indicators of the Labour Market*.

Figure 3 shows the trends in the numbers (not rates) of the unemployed, which shed light on the problem from a different angle. The fact that two highly populated countries, China and Indonesia, are experiencing a sharp increase in unemployment holds great significance for the region as a whole.

#### Between Unemployment and Informal Employment

The problem is not limited to unemployment, nor is an adequate solution to establish unemployment insurance schemes that cover the currently unemployed. According to Pellissery and Walker (2007), unless constructed on the basis of an understanding of the characteristics of a labor market, social security is, in fact, likely to impede social integration. In most developing countries: “The fluidity of jobs and employers makes registration and compliance difficult to ensure, while low wages and productivity undermine actuarial viability and inhibit provision and uptake. Consequently, social security often serves as a discriminating feature of the formal employment sector, rather than as a mechanism for social cohesion” (Pellissery and Walker 2007: 403). In short, Western-style social insurance, which presupposes a wage

employment-centered labor market, is not adequate as a measure for social security for developing countries.

A theory of unemployment proposed by Okochi (1952) 60 years ago may provide a suggestion for considering this issue. In those days, Japan had a large agricultural sector, and the industrial sector was also supported by many migrant workers from rural areas—which are characteristics common to the current situation in developing countries. In this context, Okochi argued:

First, unemployment denotes that a worker who does not have his own means of production has lost his workplace. If he has his own workshop, land, or store, he cannot be unemployed. In such a case, if that worker cannot earn enough money to live, he is called “poor” or “underemployed,” but he is not “unemployed” in a precise sense (Okochi 1952: 9).

Second, the idea of unemployment presumes that the unemployed worker retains his willingness to work. It implies that he shares a characteristic of modern wage workers that Weber calls “the spirit of capitalism.” Such a worker should not be idle and should make every effort to earn his own bread (Okochi 1952: 12).

Third, if a worker cannot find a job that suits his skill or ability set, it can be said that he is “unemployed.” In countries where unemployment insurance is inadequate, dismissed workers may be ready to accept whatever job is possible. If they get a new job that is not appropriate to their skills, however, it is a kind of unemployment, in the sense that they are misallocated from the viewpoint of the efficiency of the whole of industrial society (Okochi 1952: 16).

The first point suggests that the concept of unemployment is aimed only at wage workers, and cannot be applied to poor self-employed workers or the problem of underemployment. The issue of self-employed workers, however, cannot be ignored in the context of considering an extension of social security in East Asia.

The second point reminds us of migrant workers who shuttle between wage employment and self-employment. In developing countries, dismissed workers may go back to their home villages and join the family business as unpaid workers. Although they may not appear to be unemployed, there certainly is a problem here.

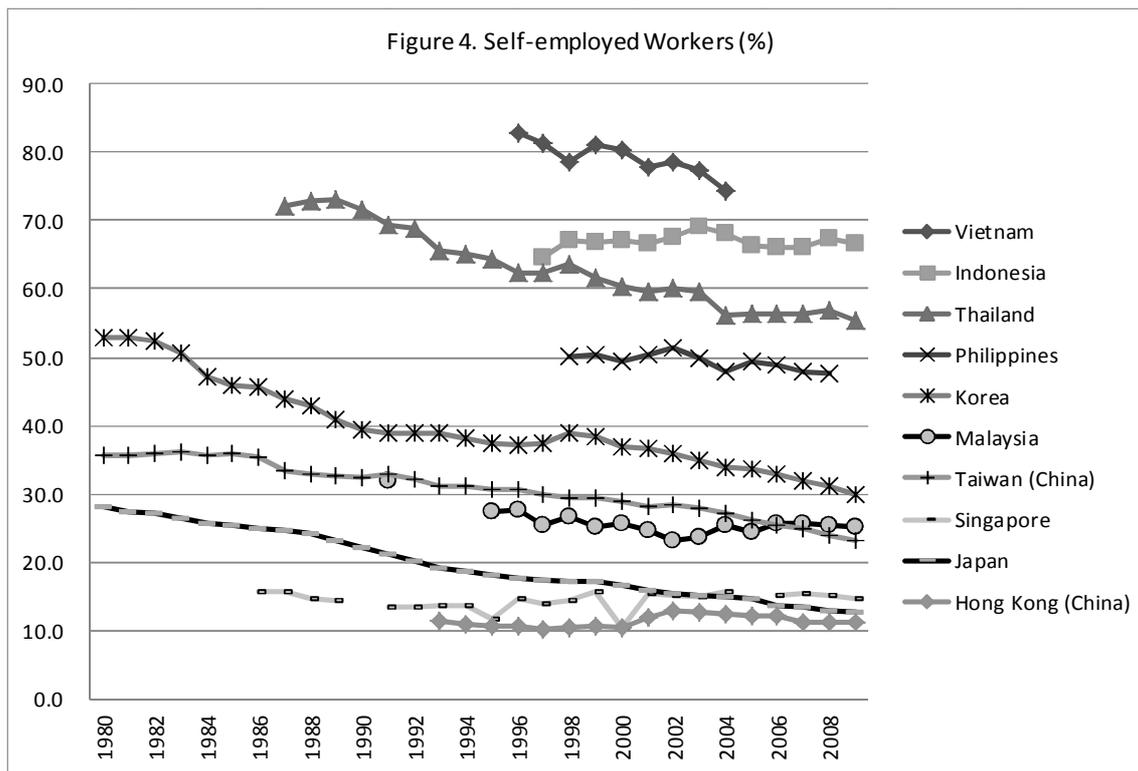
The third point implies the fact that the existence of unemployment insurance itself enables the status of unemployment, allowing the maintenance of the improvement of the skills of the unemployed. In a country without unemployment insurance, a low unemployment rate does not automatically equate to an efficient industrial society as a whole.

Based on Okochi’s argument, it is not enough to pay attention to unemployment

only. Instead, we need to focus on the problems of various types of informal employment, such as the self-employed, migrant workers who shuttle between wage employment and self-employment, and workers who are not covered by unemployment insurance. Before defining informal employment in the next two sections, here I present some data on the situation regarding self-employment, which has a deep connection with informal employment.

### Self-Employment: Shrinking But Remaining

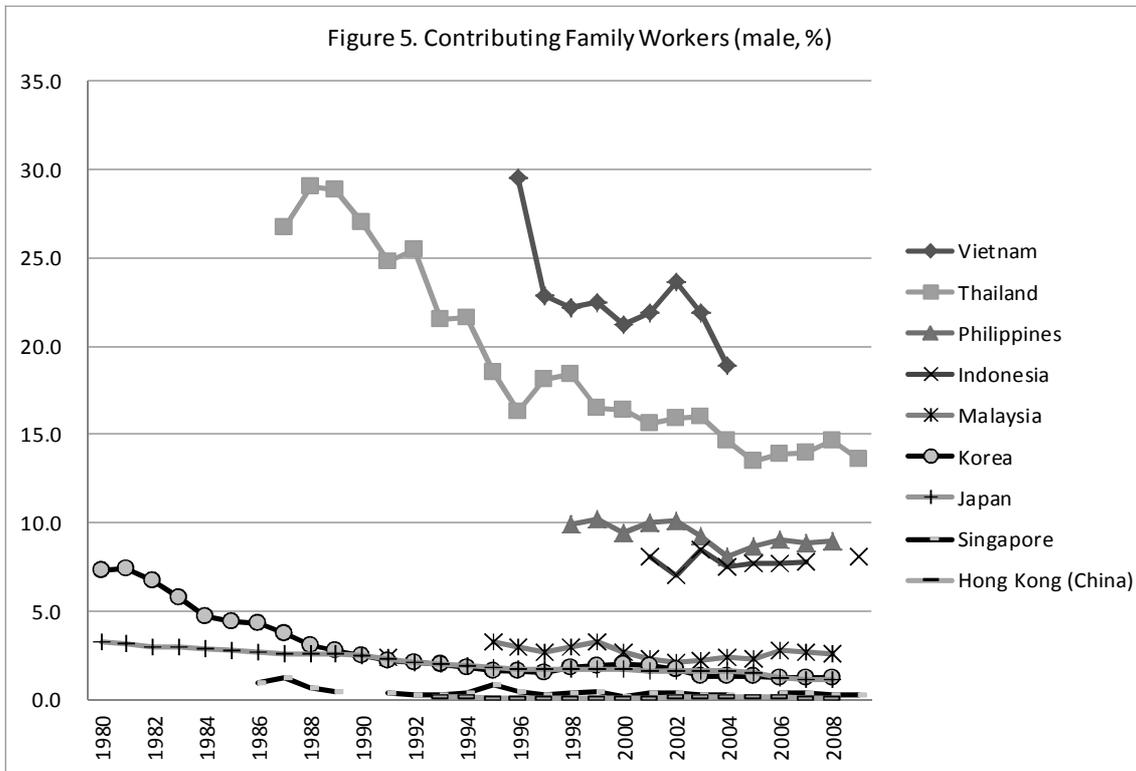
Although, as it will be explained later, self-employment is not equal to informal employment, the two categories do have a connection with each other. In a self-employment-centered labor market, the ratio of informal employment is high. The decline of self-employment may lead to a reduction of informal employment.



Data Source: ILO, *Key Indicators of the Labour Market*.

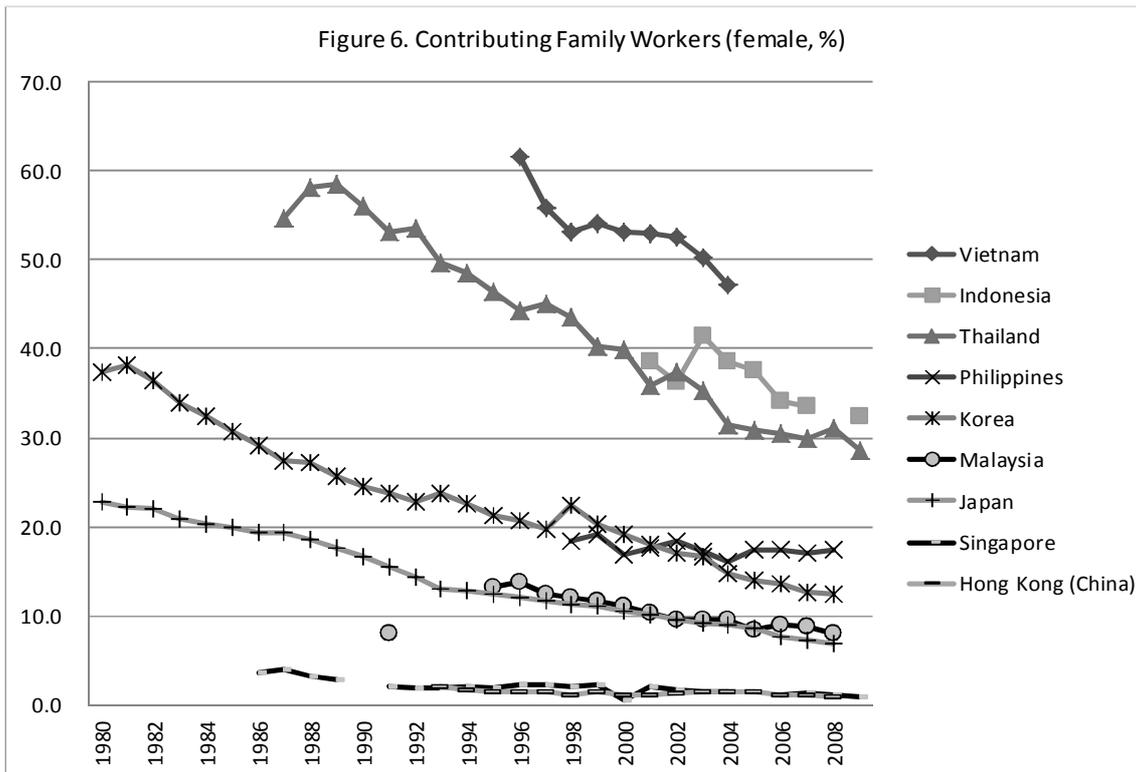
Figure 4 indicates the ratio of self-employed workers (including contributing family workers). While the ratio is apparently declining in Japan, Taiwan (China), Korea, Thailand, and Vietnam, there is no such change in Indonesia, the Philippines, and

Malaysia. In Vietnam, Indonesia, Thailand, and the Philippines, self-employed workers are in the majority.



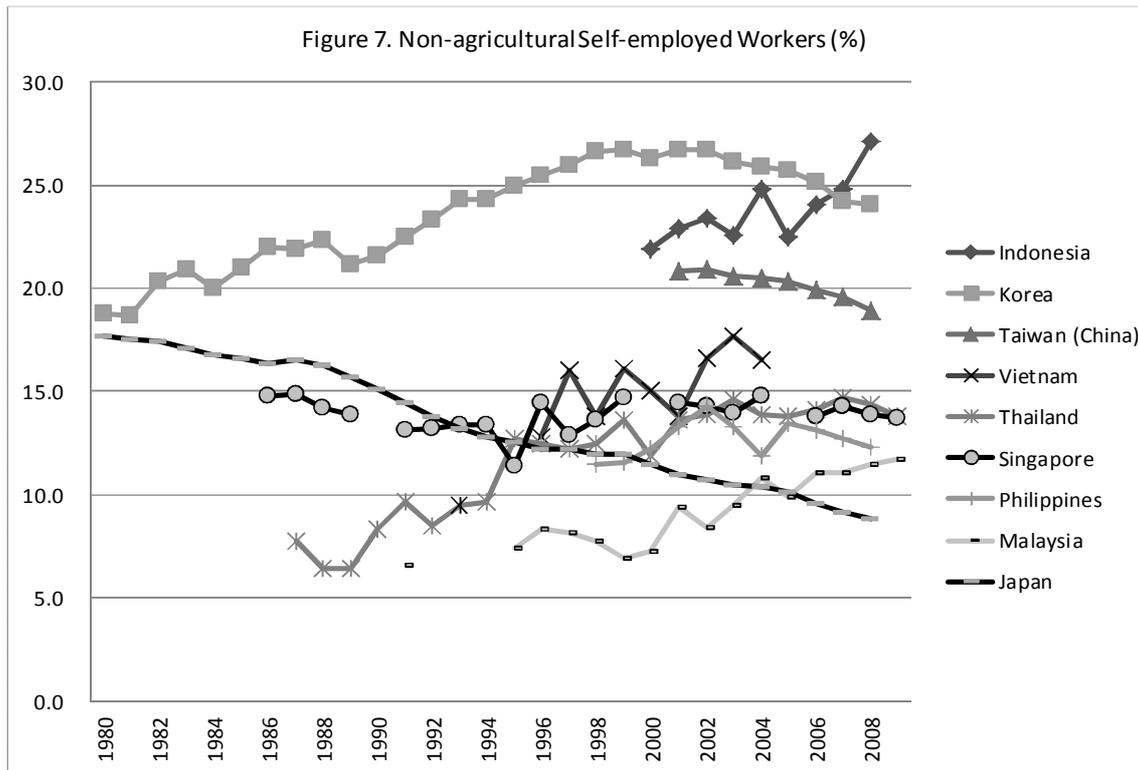
Data Source: ILO, *Key Indicators of the Labour Market*.

Figures 5 and 6 show the ratio of unpaid contributing family workers, who are the most vulnerable within the ranks of the self-employed, and who are most easily excluded from the application of social security. Figure 5 shows the data for males. The ratio is relatively high in Vietnam, Thailand, the Philippines, and Indonesia. Although they are declining, the ratios in Vietnam and Thailand account for more than 15%.



Data Source: ILO, *Key Indicators of the Labour Market*.

Figure 6 shows the data for females. The ratio is relatively high in Vietnam, Indonesia, and Thailand. Although they are also declining, the ratios account for more than 30%. In most East Asian countries, the ratio of female unpaid contributing family workers is twice that of males. Female workers are inclined to engage in informal employment, and are therefore easily excluded from the application of social security.



Data Source: ILO, *Key Indicators of the Labour Market*.

Figure 7 shows the ratio of non-agricultural self-employed workers (calculated by extracting the agricultural population from the number of the self-employed) in various East Asian countries. The ratios show different tendencies from those of self-employed workers as a whole. The ratios are relatively high in Indonesia, Korea, and Taiwan (China), while they are relatively low in Japan, Malaysia, and the Philippines. There is an increasing tendency in Indonesia, Vietnam, and Malaysia. This indicates that a reduction in the agricultural population does not always result in a decline in self-employed workers.

## 2. What Is Informal Employment?

For extending social security in East Asia, I have argued that it is necessary to focus on informal employment in addition to unemployment. What then is informal employment? The existing definitions are somewhat inadequate. Here I examine the literature on informal employment and related discussions within the International Labour Organization (ILO).

## Various Definitions

The concept of informal employment (or the informal sector) was first coined by Hart (1973), the economic anthropologist, when he explored the urban sub-proletariat in Ghana. According to him, “The distinction between formal and informal income opportunities is based essentially on that between wage-earning and self-employment” (Hart 1973: 68). In other words, his concept of informal employment is equivalent to self-employment.

On the other hand, according to Feige (1990; quoted by Portes and Haller 2005: 404), the informal economy is one of the four types of “underground economy” (the other three types being: illegal, unreported, and unrecorded economy). “The informal economy comprises economic actions that bypass the costs of, and are excluded from the protection of, laws and administrative rules covering ‘property relationships, commercial licensing, labor contracts, torts, financial credit, and social security systems’” (Feige 1990; quoted by Portes and Haller 2005: 405).

Castells and Portes (1989; quoted in Portes and Haller 2005: 405) classified things differently. They classified economic activities into three categories: formal economy (process of production: licit, final product: licit); informal economy (process of production: illicit, final product: licit); and criminal economy (process of production: illicit, final product: illicit).

While Hart limits the scope of informal employment and then explores its characteristics, Feige as well as Castells and Portes first define the concept of informal economy. Feige defines “informality” as economic activities that “bypass costs and are excluded from protection,” whereas Castells and Portes define it as economic activity in which “the final product is licit, but the process of production is illicit.”

Here we should pay attention to the fact that the extent of self-employment is not always congruent with that of the informal economy. Although they are correspondent with each other in Ghana—where Hart conducted his research—in advanced countries, most of the self-employed neither bypass the costs of taxes and social security, nor are they excluded by labor laws and other legislation. In this case, it is not appropriate to count the economic activities of the self-employed as being “informal.” On the other hand, without the distinction of advanced and developing countries, there are some employees at large companies who are legally exempt from the application of social insurance or labor regulations. Of course there may also be some employees who bypass the application illegally. Although not being self-employed, they are all informal workers in the sense of the definitions of Feige as well as Castells and Portes.

## The 2002 Consensus of the ILO

Recently, the issue of informal employment has once again been receiving increased attention in relation to the concept of “decent work,” which has been promoted by the ILO since 1999. This is because, in order to achieve decent work for all, the existence of informal employment cannot be ignored. The most important document in this respect is ILO (2002), which is known as the “2002 consensus” (ILO 2007: 2).

According to the consensus, intensified global competition has made the labor market more flexible, boosting informal employment both in advanced and developing countries. Therefore, “increasingly, ‘informal sector’ has been found to be an inadequate, if not misleading, term to reflect these dynamic, heterogeneous and complex aspects of a phenomenon which is not, in fact, a ‘sector’ in the sense of a specific industry group or economic activity. The term ‘informal economy’ has come to be widely used instead to encompass the expanding and increasingly diverse group of workers and enterprises in both rural and urban areas operating informally” (ILO 2002: 2).

In summary, this is a proposal to define informality by its characteristics, rather than by the scope of “sector.” Here “informal economy” indicates “all economic activities that are, in law or practice, not covered or insufficiently covered by formal arrangements” (ILO 2007: 3). This is close to the definition by Feige given above (“economic activities that bypass costs and are excluded from protection”).

Although this definition can decide the scope of people who are included within an informal economy, the outline is not as clear as Hart’s classic description. “The informal economy includes wage workers and own-account workers, contributing family members and those moving from one situation to another; it also includes some of those who are engaged in new flexible work arrangements and who find themselves at the periphery of the core enterprise or at the lowest end of the production chain” (ILO 2007: 3). This is nothing more than saying that one is an informal worker if one is not a formal worker—no matter for which sector one works.

The classification by Chen (2008) gives concrete expression to the concept of informal employment in the 2002 consensus. According to it, informal employment consists of “informal self-employment” and “informal wage employment.”

Informal self-employment (Chen 2008: 19):

- 1) employers: owner operators who hire others,
- 2) own account workers: owner operators of single-person units or family businesses/farms who do not hire others in informal enterprises,

- 3) unpaid contributing family workers: family members who work in family businesses or farms without pay,
- 4) members of informal producers' cooperatives (where these exist).

Informal wage employment (Chen 2008: 20):

- 5) informal employees: unprotected employees with a known employer (either an informal enterprise, a formal enterprise, or a household),
- 6) casual or day labourers: wage workers with no fixed employer who sell their labour on a daily or seasonal basis,
- 7) industrial outworkers: subcontracted workers who produce for a piece-rate from small workshops or their homes (also called homeworkers).

Among these, informal self-employment is equal to the scope of informal employment, which Hart initially supposed. Employers and own account workers, however, is not informal, if they are covered by formal arrangements. On the other hand, informal wage employment includes not only employees of informal enterprise, casual or day laborers, industrial outworkers, but also employees of formal enterprises if they are not covered by formal arrangements.

As shown in the first section, in most East Asian countries, the ratio of self-employed workers is declining in association with the reduction of the agricultural sector. As for non-agricultural self-employed workers, however, there are some countries in which the ratio is being maintained or is even increasing. It is reasonable to suppose that informal self-employment at various ratios exists in these countries. Then how can we measure the ratio? Is it also possible to measure the increase in informal wage employment? Before considering these problems in the next section, here I examine the factors that increase informal employment.

#### Why Has Informal Employment Increased?

Although there are several explanations for the recent increase in informal employment, here I follow the summary by Huitfeldt and Jütting (2009). According to them:

Firstly, informality could to a large extent be seen as a result of the type of development that fails to generate sufficient good jobs for all. This has been accentuated by low capacity in the private and public sectors to accommodate rapid population and labour

force growth and has been worsened by labour market discrimination and segregation between men and women, social groups and different occupations.

Secondly, an increase in subcontracting driven by globalisation and economic liberalisation has led to greater diversity in the forms of informal employment. This in turn has led to a greater heterogeneity among informal workers, and an increase in the number of those with higher skills and productive capacity.

Thirdly, formal regulations have mostly been designed for larger enterprises and are therefore often inadequate for the needs and conditions of the growing sector of micro-enterprises. Changes in labour regulations and/or in implementation of labour regulations may also have had an impact on the share of informality in the economy.

Fourthly, there has been informalisation by employers of once-formal jobs as a strategy to lower labour costs and deal with competition.

(Huitfeldt and Jütting 2009: 100)

The first point attributes the cause to the weak capacity of the actual market economy for job creation. The second point refers to the increased flexibility of employment caused by globalization. The third point discusses the limit of the regulatory capacity of the government. The fourth point, which is related to the second one, mentions the informalization caused by the competitive strategies of companies.

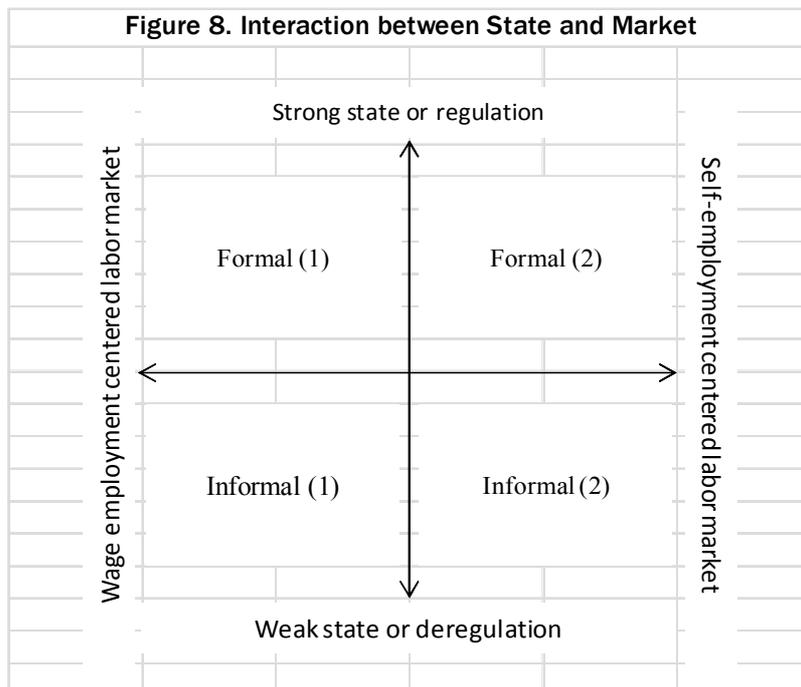
It may go beyond the scope of this paper to determine the cause for the increase in informal employment by data analysis, but based on the summary by Huitfeldt and Jütting, it can be said that the quality and quantity of informal employment are dictated both by the regulatory capacity of the government and the characteristics of the labor market. Moreover, the regulatory capacity of the government and the characteristics of the labor market are not independent of each other. Here the following explanation by Portes and Haller provides a clue. "Variations in the scope of official regulations and states' differential capacity to police them interact with the characteristics of the population subject to these rules. It stands to reason that societies vary in their receptivity or resistance to official regulation and in their ability to organize underground forms of enterprise" (Portes and Haller 2005: 411). It can be supposed that the interaction between state and society (here the government and labor market) may create various types of informal employment.

### 3. Social Security and Informal Employment

In order to expand social security coverage to informal workers, it is necessary first to clarify and operationalize the concept of informal employment. In this section, I propose a novel schema to capture the phenomenon, attempt to measure the scale of informal employment, and finally discuss policy implications.

#### Interaction between State and Market

Based on a review of the preceding sections, a coordinate plane such as that shown in Figure 8 can be considered for capturing the interaction between the regulatory capacity of the government and the characteristics of the labor market. Although “formal employment” means employment that is covered by regulations and protection such as tax systems, labor laws, and social security, the following argument mainly focuses on the application of social security.



Formal (1), upper left, is a combination of a state with a strong regulatory capacity (or a tightening of regulations) and a wage employment-centered labor market. Western welfare states that were established in the mid-20th century fit into this type. The conditions for a workable social insurance, which is contributed to by employers and

employees, are the state's capacity to run the scheme and a type of labor market wherein most employers can afford to pay the contribution premiums for their employees. In such a system, informal employment can hardly proliferate. There is, however, a possibility of a move to Informal (1) as a result of deregulatory reform.

Formal (2), upper right, is a combination of a state with a strong regulatory capacity (or a tightening of regulations) and a self-employment-centered labor market. In a self-employment-centered labor market, it is not easy to collect premiums from workers regularly and constantly, let alone from their employers. Accordingly, states with a strong regulatory capacity devise efficient methods to collect premiums from self-employed workers, or devise schemes based on a government budget. For example, it could be a personal saving accounts scheme or non-contributory social allowances. The idea of basic income may be worth considering.

Informal (1), lower left, is a combination of a state with a weak regulatory capacity (or deregulation) and a wage employment-centered labor market. This type of system can emerge from two different paths. One is as a result of neoliberal deregulatory reform in advanced countries where a Formal (1)-type combination was once established. The other is where self-employment-centered Informal (2) type countries, as a result of economic development, move to a wage employment-centered labor market without establishing comparable social security schemes. Here informal wage employment is dominant. We should strengthen the capacity of the government to place the responsibility for social security on employers.

Informal (2), lower right, is a combination of a state with a weak regulatory capacity (or deregulation) and a self-employment-centered labor market. Most developing countries have this type of feature. This type of system can also emerge for two different reasons. One is where formal schemes exist, but their coverage cannot be extended to most workers as a result of either the weak regulatory capacity of the government or the self-employment-centered labor market. The other is where a specific scheme has not existed from the outset. Here informal self-employment is dominant. We should strengthen the capacity of the government to devise suitable methods to a self-employment-centered labor market.

I would like to add two comments on these models. First, where a specific scheme does not exist in Informal (1) or (2): In the case, for example, of countries that have not introduced an unemployment insurance scheme yet, it may be possible to say that workers who are not covered by unemployment insurance are not informal workers, for all workers are out of coverage. If so, the problem of informal employment can be resolved by eliminating all state regulations and protection. This is illogical. Therefore,

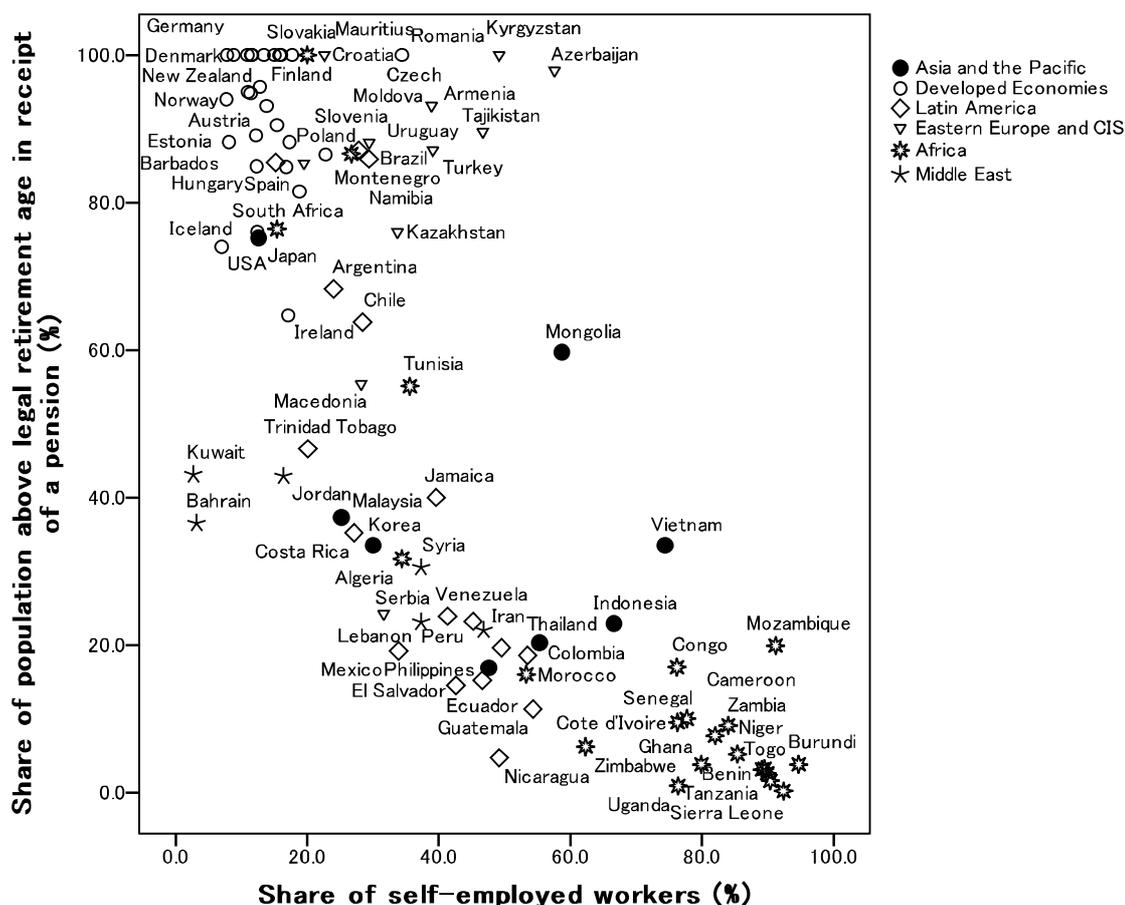
it may be pointless to classify formal/informal employment by domestic criteria. We need a certain kind of international standard. All employment in a country in which a certain scheme does not exist should be judged as being informal in terms of the specific area.

Second, as mentioned later, in reality, there are only a few cases that fit into the Formal (2) type. Most developing countries are located in Informal (2). On the other hand, in a case where a shift toward Informal (1) occurs due to economic development, it is recommendable to introduce a Western-style social security system, i.e. Formal (1). As for cases, however, of countries that remain in Informal (2) or of remaining informal self-employment in a country of Informal (1), it should also be considered to construct a developing country-style scheme, i.e. Formal (2). Here we should refer to the Japanese experience of implementing the National Health Insurance, which covered farmers and the self-employed before the Second World War (Hiroi 2003, Kitayama 2011).

### Measuring Informal Employment

As mentioned in the second section, it is not easy to measure the proportion of informal employment (including informal self-employment and informal wage employment). This does not always result from the inadequacy of statistics. When we say “not covered by formal arrangements” or “bypass costs and are excluded from protection,” there are always gray areas—such as cases that are covered by some schemes but are excluded by others, or cases that are excluded from protection even when taxes are being paid. Accordingly, I propose to measure the proportion of informal employment in each specific scheme separately. Here I concentrate on analyzing data on pensions and unemployment insurances. It is not surprising that there are cases that are covered by a pension scheme, but are not covered by unemployment insurance. There is no way to proceed other than to synthesize the measurements of each specific area.

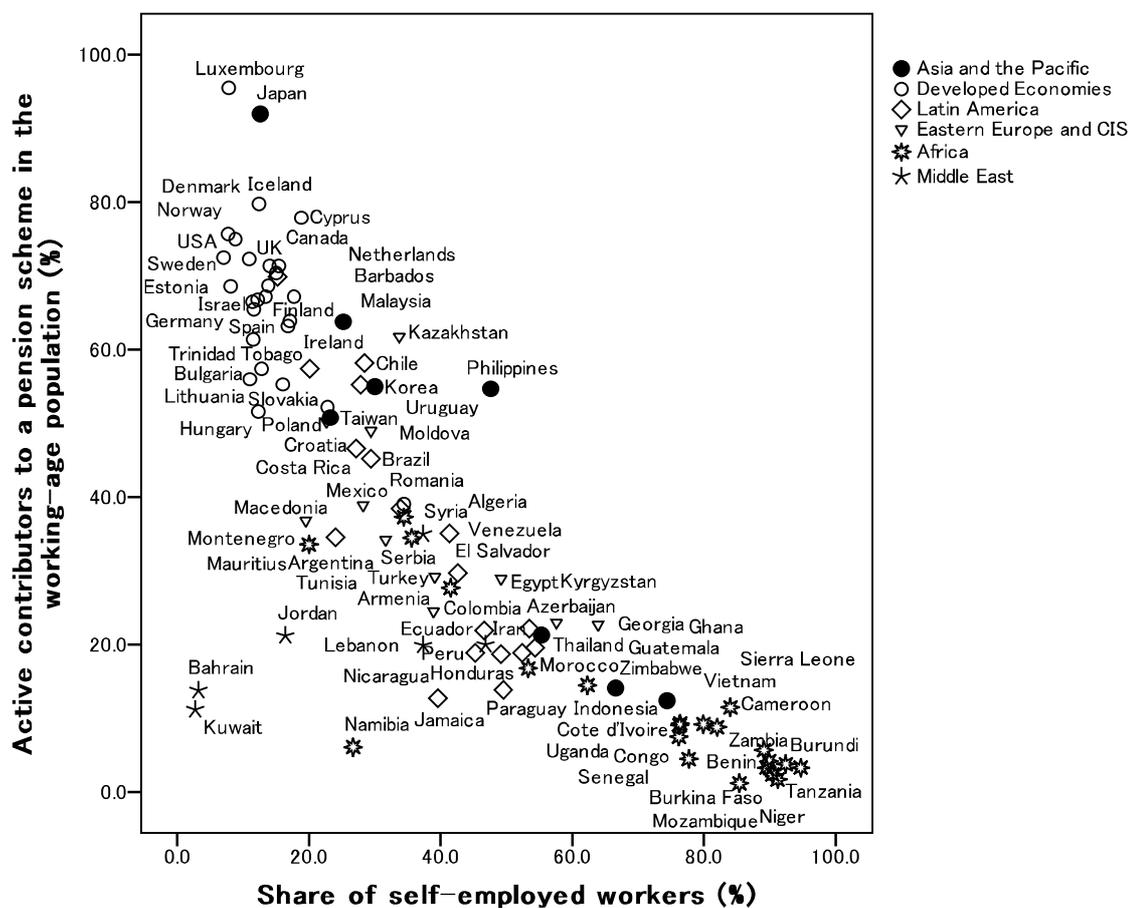
**Figure 9. Effective Coverage of Pensions**



Data Source: ILO, *World Social Security Report 2010-2011*, Table 21, p. 240 (For Japan: National Institute of Population and Social Security Research, *Statistical Yearbook of Social Security*). For the ratio of self-employed: ILO, *Key Indicators of the Labour Market*.

Figure 9 shows the effective coverage of pensions (i.e. share of the population above legal retirement age in receipt of a pension). The horizontal axis shows the share of self-employed workers in each country. Most advanced countries, including Japan, are concentrated in the upper left. This corresponds to the Formal (1) type. The Philippines, Thailand, Indonesia, and Vietnam are located in the lower right, which corresponds to the Informal (2) type. Malaysia and Korea are located in the lower left, which means that the process of formalization does not keep up with the increase in wage employment (i.e. Informal (1)). On the other hand, in some CIS countries—Kyrgyzstan, Azerbaijan, and Tajikistan—the share of informal employment is small for their relatively high ratio of self-employment (i.e. Formal (2)). Although somewhat distant, Mongolia has a similar tendency.

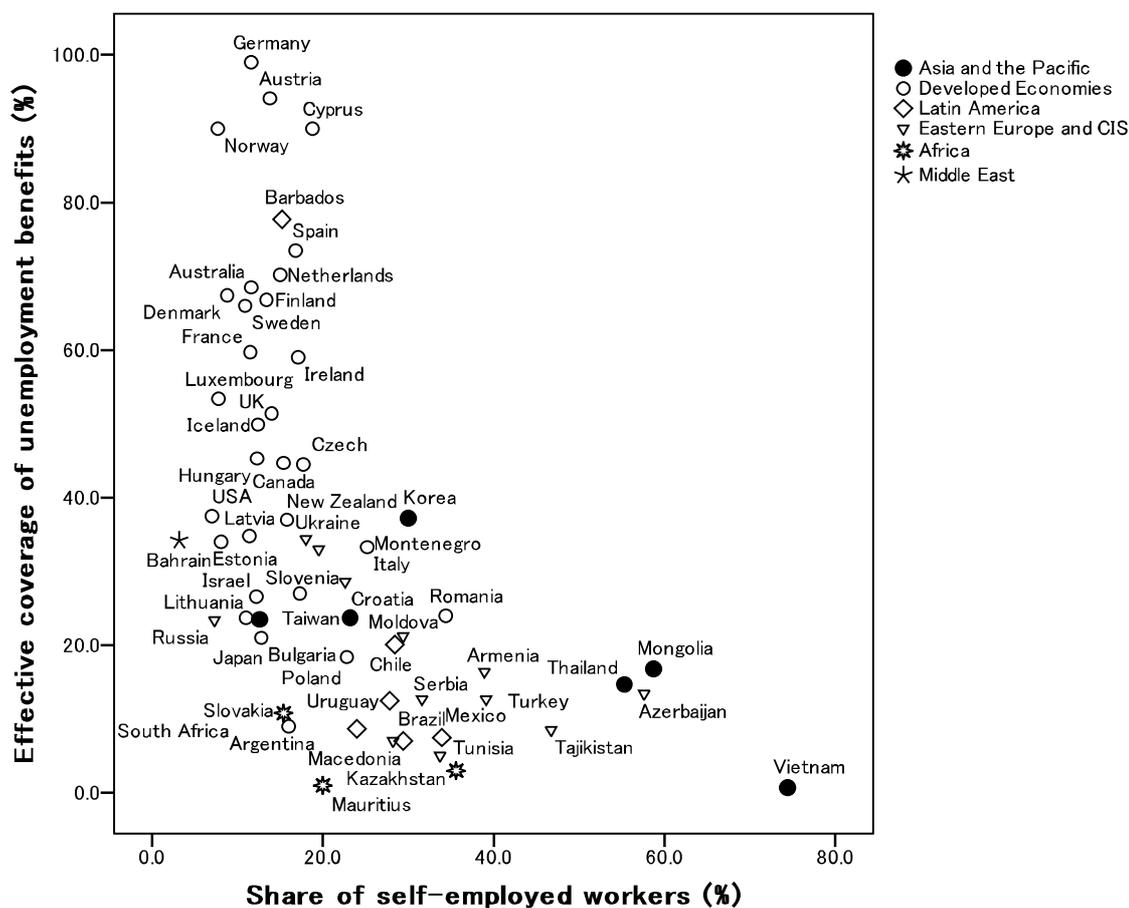
Figure 10. Legal Coverage of Pensions



Data Source: ILO, *World Social Security Report 2010-2011*, Table 21, p. 240 (For Japan: National Institute of Population and Social Security Research, *Statistical Yearbook of Social Security*). For the ratio of self-employed: ILO, *Key Indicators of the Labour Market*.

Figure 10 shows the legal coverage of pensions (i.e. share of active contributors to a pension scheme in the working-age population). The horizontal axis shows the share of self-employed workers in each country. The overall picture shifts downward from Figure 9. This means that the ratio of Figure 9 includes not only social insurance-type pensions, but also pension financed by the government budget. On the other hand, in Malaysia, Korea, the Philippines, and Taiwan (China), the legal coverage surpasses the effective coverage. Presumably because the pension schemes of these countries have recently been extended, the participation rate (i.e. the legal coverage) of the working generation is higher than the ratio of beneficiaries (i.e. the effective coverage). This implies the process of formalization is currently proceeding.

**Figure 11. Effective Coverage of Unemployment Benefits**



Data Source: ILO, *World Social Security Report 2010-2011*, Table 22a, p. 245 (For Taiwan: Council of Labor Affairs, *Yearbook of Labor Statistics*). For the ratio of self-employed: ILO, *Key Indicators of the Labour Market*.

Figure 11 shows the effective coverage of unemployment benefits (i.e. percentage of the unemployed receiving unemployment benefits). The horizontal axis shows the share of self-employed workers in each country. Differing from pensions, the effective coverage of unemployment benefits varies even among advanced countries where the ratio of self-employment is similarly low. Countries such as Japan have experienced informalization in terms of unemployment insurance. It is worth noting that the effective coverage in Japan was over 80% in the 1960s (Statistics Bureau, *Longitudinal Statistics Series of Japan*). This was partly because the unemployment rate at that time was quite low. Still, one of the main reasons of the decline seems to be neoliberal regulatory reforms. Although the coverage in other East Asian countries is similarly low, we should also pay attention to the fact that there are many countries that have not

introduced unemployment insurance yet (Kamimura 2010).

### Strategies for Extending Social Security

Bearing these conditions in mind, how can we formalize both informal self-employment and informal wage employment? Setting the problem of the informalization of employment in advanced countries aside, here I concentrate on the issue of extending social security (here, mainly unemployment insurance) in developing countries.

There are difficulties peculiar to the implementation of unemployment insurance in developing countries. The causes are attributed to both government and market. A World Bank labor economist, Vodopivec (2009) maintains:

The most important circumstances which dictate deviations from a standard UI [unemployment insurance] program are the low stage of development of the labor market and weak administrative capacity. In developed countries, UI has emerged in response to the developments of the labor market, specifically, the emergence of the unemployment as a “discrete event.” In important ways, labor market conditions in developing countries—particularly the prevalence of large informal sector—make unemployment more a “continuous” variable, with important consequences for the design of unemployment insurance. Moreover, the administrative capacity of developing countries (even in upper-middle income group) lags behind the capacity of developed countries, which is likely to worsen the efficiency properties of UI program.

(Vodopivec 2009: 10)

Vodopivec recommends Unemployment Insurance Savings Accounts that have no risk-pooling functions and place stress on individual responsibility, considering that it is not realistic to introduce a Western-style unemployment insurance scheme into developing countries. On the other hand, the ILO Office for Indonesia emphasizes the importance of introducing unemployment insurance even in countries such as Indonesia.

The [Indonesian] government’s strong policy response [for the economic crisis] has included infrastructure development, which is critical for providing jobs, in particular for the unskilled. The government has also put in place various social assistance

programmes for the poor, which have been strengthened as a result of the crisis. What is missing, however, is protection for the semi-skilled, in particular for women and the near-poor. They do not qualify for the social assistance programmes for the poor and, given their relatively higher skill levels, the lower skilled jobs in infrastructure often do not represent appealing alternatives. Furthermore, as infrastructure works typically attract mainly male workers, they cannot sufficiently absorb the large number of women who have been laid off in export-oriented industries. For these groups, unemployment insurance can function as an automatic stabilizer that may cushion the impact of the economic shock and help maintain aggregate demand. Unemployment insurance could also slow down the transmission of the crisis from urban to rural areas, especially in countries where large numbers of rural migrants have lost jobs in export-oriented industries.

(ILO Office for Indonesia 2009: 22)

In short, even in countries such as Indonesia, there are types of workers that should be covered by unemployment insurance, rather than by social assistance or public-works programs.

Of course there is no need to narrow formalization strategies down to a single way. Wage earners, who are increasing, should be covered by Western-style social insurance schemes. Although it is not easy to cover casual or day laborers, the experience of Day Laborers' Unemployment Insurance in postwar Japan (Ujihara 1989: 45) may serve as a useful reference to find solutions, setting the Unemployment Insurance Savings Accounts aside. On the other hand, it may not be realistic to cover the remaining self-employed workers by unemployment insurance. It is better to give priority to establishing a community-based insurance in the area of health and pensions.

Nevertheless, we should not forgive the survival of informal employment on the grounds of "weak regulatory capacity of the government" or "self-employment-centered labor market." Instead, we should consider strategies for formalizing each type of informal employment, and make governments enhance their capacity to realize such strategies.

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