



# EMPLOYMENT POLICY IN A DEVELOPMENT CONTEXT

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(Policy Document)

Human Rights Education and Monitoring Center

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Tbilisi, 2020

ადამიანის უფლებების სწავლებისა და მონიტორინგის ცენტრი

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The document is prepared in the framework of the Project - "Supporting Social Rights in Georgia through Research and Participatory Advocacy", which is supported by the Open Society Georgia Foundation (OSGF).

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## 1. What is the essence of the problem?

Unemployment is the most acute problem in Georgia. According to official figures, in 2018 unemployment rate was 12.7%.<sup>1</sup> However, this figure is likely to be much higher. A precondition for such a presumption is that self-employed persons are perceived as employed by international standards and therefore do not fall into the ranks of the unemployed. Self-employed make up half of all employed in Georgia (48% in 2018).<sup>2</sup> The overwhelming majority of the latter are subsistence farmers who often are unable to cover their minimum needs. Accordingly, it is likely that without a large group of people involved in natural farming, the unemployment rate in this country would be much higher.

On the other hand, if we look at the employment rate, it has been increasing in recent years.<sup>3</sup> Employment in a formal sector is mainly driven by the private sector, though there is a qualitative element to be noted: although there is an increase in the number of employees, however, most of them are employed in very precarious jobs, with rather low wages, making their advantage over 'unemployed' questionable.

In general, there are two approaches to eradicating unemployment: according to the first approach, the country does not need a separate "employment policy" and the country's economic growth will automatically lead to decreasing unemployment. According to the second approach, while economic growth is important, effective employment policy is also necessary. The latter is supported by two arguments: the first is that economic growth does not necessarily lead to increased employment - in recent decades so-called "jobless growth" has been a major problem for the whole world. Secondly, even when economic growth is followed by an increase in employment, that does not automatically mean that the jobs created will provide people with a decent living. This is evidenced by the tendency for the increase in precarious and atypical jobs, which puts a heavy burden on social security systems in countries.

Therefore, the central question of this policy document is what should the employment policy look like in Georgia? How should it ensure the creation of not only "more" but also "better" jobs? Therefore, employment policy will be discussed as an essential component of economic development.

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<sup>1</sup> <https://www.geostat.ge/ka/modules/categories/38/dasakmeba-da-umushevropa>

<sup>2</sup> <https://www.geostat.ge/media/18162/dasaqmeba-da-umushevropa-19.02.2019-%28geo%29.pdf>

<sup>3</sup> *ibid*

### Employment Policy Field

Employment policy can be defined as a set of programs, activities and services through which the state seeks to increase the employment rate in the country. According to the EU Statistics Service - Eurostat – classification, employment policy (same as labor market) is defined as 'state intervention in a labor market with a goal to ensure its effective functioning and overcoming inequalities'.<sup>4</sup>

There are different classifications of employment policies. The most common is the difference between **active and passive employment policies**, on the one hand and **supply-side and demand-side policies**, on the other. Passive employment policy implies financial support for the unemployed during unemployment; Its main instrument is an unemployment insurance system. Active policy involves the provision of various employment services to the unemployed by public employment services, which includes, for example, counseling, training (retraining courses), etc. It is important to note that the key measures of both passive and active labor market policies are supply-side employment policies. The latter implies that efforts are focused on the unemployed, strengthening their skills and competences, counseling and generally assisting them to return to the labor market. It is precisely the supply-side employment policy that is dominant in both developed and developing countries today.

As for the “demand side” employment policy, it implies state interventions aimed at job creation. These include primarily entrepreneurship development programs that encourage unemployed people to self-employment. Demand-side policies are also considered to be public employment programs when the state uses big scale infrastructure (or other kind) projects for temporary employment of the unemployed. Another example is “subsidized employment” - when the state subsidizes wages, in whole or in part, to encourage the employment of representatives of a specific, vulnerable group (e.g. persons with disabilities) and thus encourages the employer to provide jobs for these people.

It should also be noted that the 'demand side' employment policy is fundamentally different from the industrial policy. The latter involves macroeconomic policies aimed at changing the structure of the country's economy: for example, the transition from agrarian to high-tech production. It should be noted that industrial policy is understood in a broad sense, as "a new type of production with new technologies and the new sector development."<sup>5</sup> It is important to emphasize the

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<sup>4</sup> <https://ec.europa.eu/eurostat/en/web/products-statistical-books/-/KS-DO-12-001>

<sup>5</sup> Rodrick D. (2014) – Industrial Policy for the Twenty-first Century  
<https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/industrial-policy-twenty-first-century.pdf>

difference, because the industrial policy framework is also demand stimulation oriented but unlike "employment policy", it is much bigger in scale and aims at economic restructuring. In this process, the government deliberately supports certain economic sectors in combination with relevant export, financial and import policies. This difference will be discussed in more detail in the last section of the policy document.

## 2. What is the employment policy like in Georgia today?

Since 2012, Georgia has started creating labor market institutions and launching relevant programs. To a large extent, this was driven by bilateral cooperation with the EU and the country's commitments in that regard. Specifically, in 2013, in the framework of the European Neighborhood Policy Instrument, the EU Budget Assistance Program for 2014-2017 was signed, which was intended to assist the Georgian state in the reform of vocational education and employment.<sup>6</sup> In particular, it should be emphasized that this agreement established the development of employment services and labor market institutions as a precondition for the transfer of budgetary support tranches. Labor and employment obligations increased even further in 2014, when Georgia signed the Association Agreement with the European Union.

The main body responsible for labor and employment policy is the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia. Namely, the Department of Labor and Employment of the Ministry which was established in 2013. It was this department that developed the 2014-2018 "Labor Market Formation Strategy",<sup>7</sup> which was the first strategic document in this field in the last decade. The main goals of the strategy were to create / revise the legislative framework necessary for labor and employment policies in the country, to form relevant institutions and implement programs.

As for the immediate implementation of the employment policy, this function was entrusted to the Employment Support Department of the Social Service Agency. Its main function is, on the one hand, to register job seekers and, on the other hand, to offer them "employment services". It is also worth noting that from December 1, 2019, it is planned to transform this department into a separate agency and establish it as a European "public employment service".

In order to register job seekers, an electronic portal [www.worknet.gov.ge](http://www.worknet.gov.ge) was created in the department, which has 234 436 registered users as of 2018.<sup>8</sup>

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<sup>6</sup> The EU Technical Assistance Program, 2018

<sup>7</sup> <https://matsne.gov.ge/ka/document/view/2659895?publication=0>

<sup>8</sup> Interview Social Service Agency, 2019

Registering on this portal is the first step for all beneficiaries who apply to the department for help. When creating an account on the portal, the job seeker presents information on their personality, education, work experience and other important information needed for employment purposes. The portal also has an employer registration module that allows a registered company to post vacancies online. The special software also provides for automatic linking of a job seeker to a job posting; however, this feature has not yet been launched. It should also be noted that the creation of the portal did not receive much feedback from the employers and they are not actively posting vacancies there.

After registering in the system, the department offers a job seeker a range of services such as counseling and information provision, mediation services (contacting employer), career planning, job subsidies (for people with disabilities), organizing job fairs, etc. As of 2018, a total of 9700 people have used these services.

It should be noted that the most extensive of these employment services is the Vocational Training-Retraining Program, which has been operational since 2014. The main goal of the program is to provide vocational training for the unemployed in the most in-demand professions. Participants will receive a GEL 1500 state voucher which they can use to enroll in a relevant vocational college. The list of in-demand professions and course providers is compiled annually by the Department of Labor and Employment.

The number of participants in the training-retraining program increases from year to year, and so does the program budget.

**Table 1: The state training-retraining program statistics**

Year	Number of Participants	Alumni employment rate	Program budget (in GEL)
2015	415	35 (8%)	1 900 000
2016	1804	534 (29%)	2 014 000
2017	2130	551 (25%)	2 014 000
2018	2575	514 (19%)	2 090 000

Source: Labor and employment, 2019

As can be seen from Table 1, if in 2015 there were 415 participants in the program, in 2018 their number increased to 2575. The employment rate of graduates of the program is increasing, however, in 2018 compared to 2017 the employment rate was reduced by 6%. It should also be noted that the data on graduation employment statistics are different. For example, monitoring conducted by the Georgian Trade Union Confederation shows a much lower rate of graduate employment than the

statistics of the agency itself.<sup>9</sup> The agency data itself is also varied, as graduates of a particular year are surveyed at different times after the course, which obviously changes the outcomes. In any case, it is clear that these figures are quite low (even according to the most improved data, only one in five were employed), which, in turn, points to gaps in the program design.

### 3. Challenges of Employment Policy in Georgia

The above review shows that the “employment services” provided by the Employment Promotion Department are mainly aimed at enhancing the employability of the workforce, whether through training, consulting or other services. Analysis of the strategic documents in this field also shows that the employment policy in the country is mainly a supply-side policy. In this approach, identification of the labor market demands is central, so that employment services can prepare human capital in meeting that demand.

Such an approach raises two questions: a) How well are "in-demand professions" currently determined? (Which is important for the effective implementation of the supply side policy). (b) How correct / effective is the emphasis on the "supply-side" policy in the context of Georgia? The first is a technical question concerning the effective implementation of the chosen approach, and the second looks at the issue more broadly and questions the validity of the approach itself. We will consider each of these questions.

#### How correctly is the “demand” determined?

In order to determine the labor market demand, it is critical to regularly study and monitor the labor market. It is also important for the labor market information systems to exist and function correctly. Currently, the labor force surveys in Georgia exist only sporadically. However, there are also certain steps taken towards more systematic approach: in particular, the Labor Market Analysis Unit set up by the Ministry of Economy and Sustainable Development conducted the first Labor Market Demand Survey in 2017, in which around 6,000 companies were interviewed.<sup>10</sup> The Division continues its research in this area. At the same time, the Department of Employment Promotion has the responsibility of conducting qualitative labor market research, which is carried out irregularly. Based on the summary of these studies, the Department of Labor and Employment compiles a list

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<sup>9</sup> <http://gtuc.ge/%e1%83%a9%e1%83%95%e1%83%94%e1%83%9c%e1%83%a1-%e1%83%a8%e1%83%94%e1%83%a1%e1%83%90%e1%83%ae%e1%83%94%e1%83%91/publications/>

<sup>10</sup> <http://www.lmis.gov.ge/Lmis/Lmis.Portal.Web/Pages/User/Surveys.aspx?ID=7a09257c-ac3c-4860-a7b0-b8fb3922405f>



of in-demand professions. However, it is not possible to obtain in-depth information on the demand of the workforce that would help educational institutions adjust their curriculum accordingly.

This is primarily due to the fact that in light of the specificity of quantitative research, the companies provide rather "dry" information about the in-demand professions. The conducted studies show that survey is mainly limited to eliciting the list of in-demand profession / workplace. However, a list of professions obtained from the survey does not tell the educational institution about the skills, competencies and knowledge that a representative of particular profession should possess. This shortcoming in quantitative research can be eliminated by qualitative research which could examine the qualitative characteristics of the most frequently requested professions based on the quantitative trends identified (e.g., if most companies are seeking to employ a "chef", the next stage of research should be learning what kind of chef will be in demand: what skills, competences and qualifications they must possess). Based on such data, it would be possible for vocational (or any other) educational institutions to develop appropriate curricula. Unfortunately, there is no such logical link between the studies carried out by the Social Service Agency and the Ministry of Economy at this stage.

To summarize, it should be noted that the elimination of research deficiencies is a matter of technical expertise and can be easily overcome with the help of relevant specialists. This direction is recognized as a priority by the Government and therefore, the deficiencies are likely to be corrected over time. However, in parallel, it is important to consider whether it will be sufficient to simply "determine demand" to tackle the problem of unemployment.

#### *How correct is it to focus solely on "determining demand"?*

Supply-side employment policy implies that the economy generates enough jobs and the only downside is that there is no qualified staff available for these jobs or they do not know how to find the existing jobs. Thus, the main focus is on the training of the labor force and then placing them in available jobs. However, the situation in Georgia needs further re-thinking. The economic growth phase, which began in 2005, was driven by the growth of the service sector. In 2006-2016, the average annual growth rate in the service sector was 6%.<sup>11</sup> Excluding manufacturing, the private sector has created the most jobs over the last decade. In parallel, employment in the public sector has declined.<sup>12</sup>

Growth in the service sector is an important positive development, but the nature of these jobs has to be taken into account. Analysis of 2009-2015 data shows that

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<sup>11</sup> <http://documents.worldbank.org/curated/en/995521527068940160/Georgia-at-work-assessing-the-jobs-landscape>

<sup>12</sup> <https://www.gfsis.org/files/library/pdf/Georgian-2456.pdf>

most of the jobs created during this period did not require higher education / qualifications (university diploma). For example, in 2015, 53% of total jobs were created spontaneously, jobs created by the workers themselves (self-employed), which did not require formal education (e.g. taxi drivers, petty traders, etc.). At the same time, it should be noted that the unemployment rate among the ISCO<sup>13</sup> groups 4-9 (e.g. support staff, physical workers, craftsmen and operators) is almost twice less than the national average, while the unemployment rate of "specialists" is 20.8% higher than the national average.<sup>14</sup> Thus, the unemployment rate is much lower among those with "medium" and "low" qualifications, as the demand is mainly concentrated on them.

The fact that the Georgian economy does not create many high productivity jobs and that the labor market is predominantly dominated by low productivity jobs in the service sector is also confirmed by the recent research. For example, a survey conducted by the Social Service Agency<sup>15</sup> found the most demand is for "unskilled workers". According to a survey by the Ministry of Economy and Sustainable Development, the surveyed companies plan to hire mostly the financial and sales support staff and individual service and security workers in the near future.<sup>16</sup>

This situation brings the supply-side employment policy to a dead-end: If employment programs are tailored to private-sector demand and if the latter generates mostly unskilled jobs, it follows that the state budget should be spent on the training of such "support" staff. While this approach may have a positive effect in a short run (i.e., demand meets supply in the labor market and employment rate is increased), in the long run it will not lead to the development of the economy. In other words, the preparation of the workforce for existing low-productivity jobs cannot lead to the emergence of new, innovative sectors in the economy and consequently the creation of highly productive jobs. The latter, however, is a prerequisite for development. In order for higher-skilled jobs to exist in greater numbers, it is important for the country to have a "demand side" employment policy and an appropriate industrial policy. In the next part of the paper we will discuss this issue.

### *The role of the state in shaping the demand for labor*

According to the formal definition, Georgia has some kind of "demand-side" employment policy. However, it has significant drawbacks. More precisely, demand-side policy is not related to supply-side policy and is being pursued in a sort

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<sup>13</sup> International Classification of Employment

<sup>14</sup> *ibid*

<sup>15</sup> [http://ssa.gov.ge/files/01\\_GEO/PUBLIKACIEBI/FILES/angarishi.pdf](http://ssa.gov.ge/files/01_GEO/PUBLIKACIEBI/FILES/angarishi.pdf)

<sup>16</sup>

<http://www.lmis.gov.ge/Lmis/Lmis.Portal.Web/Handlers/GetFile.ashx?Type=Survey&ID=0e5d2e14-f30c-451c-8df9-335626974ad3>

of vacuum without an industrial policy framework. Consequently, most of the jobs created by it are still concentrated in the low-productive service sector.

. Annex 1).

When talking about demand-side employment policies, we should first of all refer to projects focused on entrepreneurship development. Specifically, in 2014 the government created LEPL “Produce in Georgia”, the main goal of which is to improve the entrepreneurial environment, develop the private sector, promote export possibilities and enhance the investment climate. “Produce in Georgia” has six main programs for business development (see Box 1).

Ministry of Agriculture of Georgia also participates in the program "Produce in Georgia", which funds up to 10 projects to encourage entrepreneurship in the field of agriculture.<sup>17</sup>

#### **Box 1: “Produce in Georgia” – Program Overview**

Program “Produce in Georgia” has 6 main directions, these are:

**Industrial direction:** Supports big business ideas. The minimum loan amount is 150 000 GEL. Maximum - 5 000 000 Gel. The agency is co-financing the bank loan interest rate..

**Hotel Industry Development Component:** Only hotel business is funded. Minimum loan amount - 200 000 GEL Maximum - 2 000 000 l. The agency is co-financing the bank loan interest rate.

**Micro and Small Business Support:** Grant Component. Maximum funding is 5000 GEL per one entrepreneur.

**Produce for a Better Future:** grant program for joint projects for the residents on the both side of ABL.

**Film in Georgia** - incentive program for local or international producers offering a 20-25% cash rebate on qualified expenses incurred in Georgia

**Credit guarantee mechanism:** providing guarantees on loans to viable small- and medium-size enterprises (SMEs), that are unable to meet the loan requirements.

Source: [www.enterprisegeorgia.gov.ge](http://www.enterprisegeorgia.gov.ge)

It is important to note that entrepreneurship development programs are not aligned either with the supply-side employment policy pursued by the state or with the general macro-economic policy. The positive effect on employment is always considered to be the most important outcome of the programs, although there are no accurate data on how many jobs were created during the program, such as sectoral distribution, remuneration, how many were maintained, etc. The website of the agency "Produce in Georgia" provides the only one evaluation report, according to which 338 beneficiaries (340 projects) were funded during 2014-2018,<sup>18</sup> though only 85 beneficiaries were studied. According to the information received from these 85 companies, they created 3 033 jobs in 2014-2018. The study contains

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<sup>17</sup> <http://apma.ge/>

<sup>18</sup> <http://www.enterprisegeorgia.gov.ge/uploads/files/publications/5c6bebc46258e-BDO-GEO.pdf>

information on other employment characteristics, but such information is not fully available on all program beneficiaries, making it impossible to measure the program's "employment effect".

The reason for this may be that the main purpose of “Entrepreneurship Development Programs” is to “empower businesses” and they are not viewed as an employment policy, per se. This is also reflected in the fact that everyone can participate in the program regardless of employment status, including existing business entities. This in principle distinguishes Entrepreneurship Promotion programs in Georgia from, for example, similar programs in European countries, where start-up funding is provided to an unemployed person seeking to start a business and return to the labor market.

The industrial section of the "Produce in Georgia" program defines priority areas,<sup>19</sup> covering up to 15 major areas (see Table 2). Which makes us think that the state also has a claim to some kind of industrial policy. Especially since most of the funded projects (259 out of 338) are manufacturing companies. However, a more in-depth analysis shows that these programs do not meet industry policy parameters and have nothing to do with the supply-side employment policy described above.

**Table 2:**  
**Comparison of “Priority Areas” and “In demand professions”**

“In-demand professions” / sectors identified by the Department of Labor and Employment <sup>20</sup>	Priority areas identified within the program "Produce in Georgia"
<p><u>Technical specialties</u> - agrarian technician, locksmith, crane mechanic, carpenter, zootechnician, welder, air conditioning expert;</p> <p><u>Services</u> - bartender, guide, stylist, confectioner, baker, restaurant manager, tour operator, office manager, customs, logistics, bookkeeping;</p> <p><u>Social Services</u> - Nursery Assistant, Nurse Assistant, Pharmacist Assistant;</p> <p><u>Digital Technologies</u> - Web Developer, IT Technician, Computer Graphic Designer, Computer Networking &amp; System Administrator;</p> <p>Agricultural field - viticulturist, forestry, beekeeper, dairy production</p>	<ul style="list-style-type: none"> <li>- Food production</li> <li>- Manufacture of non-alcoholic beverages</li> <li>- Production of cigars / cigarettes</li> <li>- Mineral fuels and their distillation products</li> <li>- Chemical industry products</li> <li>- Plastics and the manufactured goods</li> <li>- Timber and timber products</li> <li>- Cork and its goods</li> <li>- Textiles</li> <li>- Production of stone, plaster, cement</li> <li>- Non-precious metals and its goods</li> <li>- Electrotechnical equipment</li> <li>- Overland vehicles</li> <li>- Precious metals and its goods</li> <li>- Various industrial goods</li> <li>- Mineral products and their production</li> </ul>

In particular, the link between the priority areas of “Produce in Georgia” and the training programs implemented by the Employment Promotion Department is very

<sup>19</sup> <https://matsne.gov.ge/ka/document/view/2362780?publication=0>

<sup>20</sup> Detailed information on “in-demand professions” can be found here: [http://ssa.gov.ge/index.php?lang\\_id=GEO&sec\\_id=1215](http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=1215)

weak (see Table 2). This can be explained by the fact that, as already mentioned, the workforce is trained in so called in-demand professions, and state-funded industries / companies are not yet sufficiently developed to generate large demand for labor. But the problem is that state-funded enterprises, though they receive financial support, have no assistance in such an important matter as finding adequate personnel. It does not come as a surprise that the companies participating in the program cite the lack of skilled workforce as a second most critical problem (the first usually refers to the problems with accessing finance). Of course, without proper staffing, it is difficult for enterprises to expand and start exporting.

Thus, we are in a situation where the state, on the one hand, financially encourages the development of certain sectors / fields, on the other hand, invests in the training of the workforce in completely different sectors, because they are "most in demand". This again points towards the challenges of supply-oriented employment policies. More specifically, it is important to determine which professions do we consider to be in demand: professions with the highest number of jobs/vacancies (so-called service sector, low-productivity jobs) or professions for which there are not many vacancies, but which remain very difficult to fill in due to the absence of qualified labor force. The latter hinders the production process of state-funded enterprises and consequently blocks them from employing more people.

Except for the fact that companies are not supported by the appropriate labor force policies (as there is no proper employment policy), these companies are also not supported by appropriate trade or import policies. For example, Georgia has one of the most liberal trade policies in the region (e.g. 80% of production is free of import tariffs).<sup>21</sup> In other words, competitiveness of priority areas is not promoted. Consequently, it should come as no surprise that 46% of the companies participating in the program consider importers as their main competitors, indicating that their high-quality and therefore more expensive products cannot compete with imported, low-quality and low-cost goods. In other words, we are facing economic dumping, which has a negative impact on local production.

Thus, existing entrepreneurship development programs do not fit into the concept of industrial policy. It is simply a reflection of the state's aspiration to promote the development of a private sector, which is expected to bring additional jobs. However, as described above, we do not have accurate data about the latter. Based on the analysis of program design and existing research findings,<sup>22</sup> it can be easily seen that

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<sup>21</sup> <http://www.enterprisegeorgia.gov.ge/uploads/files/publications/5cadacc5beb1b-3-PRINT-Manufacturing-2019-small.pdf>

<sup>22</sup> Parliament of Georgia, 2018 - Women's Participation in State Economic Programs-  
<http://www.parliament.ge/ge/saparlamento-saqmianoba/komisiebi-da-sabchoebi-8/genderuli-tanasworobis-sabcho/tematuri-mokvleva/saxelmwifo-ekonomikur-programebshi-qalta-monawileobis-sheaxebs/tematuri-mokvlevis-angarishebi>

these programs largely support SMEs in the service sector (take for example the hotel industry component). Accordingly, it turns out that the current "demand-side" policy is creating low-productivity and low value-added jobs. Accordingly, the result of this policy may be "more" but not necessarily "good" jobs. In order to create more "good" jobs, demand-side policies must be implemented in parallel with and within the framework of industrial policies. It is the latter that gives the opportunity to create new, innovative sectors in the economy. Considering this, encouraging entrepreneurship can have a far better effect. Particularly interesting in this respect is the experience of "Asian tigers", which will be discussed in the next section.

#### 4. Experience of other countries

Georgian political aspirations are mainly towards European experience. As already mentioned, especially in the area of employment policy, European labor market institutions and programs are directly replicated. However, policy-makers seem to be overlooking the fact that the economic prerequisites in the European countries at the moment of establishing these policies are radically different from the current economic situation in Georgia. Namely, introduction of labor market institutions and services in European countries began in 1930<sup>23</sup> and, if we generalize, it was a by-product of industrialization in these countries. In other words - in the process of industrialization it was necessary to effectively mobilize the workforce - for this reason public employment services were created, the goal of which was to effectively supply jobs to the work places. Given that job creation is a major problem in Georgia today, direct replication of European countries' experience cannot be justified.

For the reasons stated above, the present document focuses on the so-called "Asian tigers". The experience of these countries is particularly interesting for Georgia for two reasons:

- Asian tigers joined the group of "developed countries" relatively late (in the 80s) (they are the so-called latecomers), that is to say, they went through the development stage, later than Europe did, which is a historically closer experience.
- The employment policies in these countries are closely intertwined with the general economic development strategy, which should be of particular interest to Georgia with a transitional economy.

Not all 'Asian tiger' experiences are completely identical, although a large body of research (Paik, 2015; Cahyadi et al. 2004; Kim, 1991; Kuruvilla et.al. 2004; World Bank, 2013) argues that the basic tenets of their development are very similar. Based on the literature review following components can be identified:

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<sup>23</sup> Weishaupt T. (2011) – From the Manpower Revolution to the Activation Paradigm. Amsterdam Univeristy Press

→ Export-oriented industrial policy: □ Since the 1960s, these countries have begun to adopt a gradual industrial policy. Each phase prioritizes certain sectors of the economy and assists companies working in this area to increase their export potential, which is implemented by:

→ Financing Policy: simplifying access to financing for companies with export potential. In some cases, this is done through internal resources - e.g. by cheap loans issued by state development banks (South Korea, Japan) or by attracting direct foreign investment (Singapore);

→ Import Policy: protection of local (priority areas) producers by controlling imported products (importing only the raw materials needed by local producers), high import tariffs on other products;

→ Export Policy: tax and other benefits for export-oriented companies operating in the priority area;

→ Education and Employment Policy: the education system and employment services are tailored to smoothly prepare the workforce for priority sectors. □

Most importantly, there is a close, logical link between economic development and employment policies in these countries. In particular, to reduce unemployment prior to industrialization, countries are focused on developing sectors that are low-tech but are labor-intensive. <sup>24</sup> Along with the above, the state invests heavily in educating citizens and equipping them with skills that will enable them to produce more high-tech products at a later stage.

There are significant differences in development policies considering the size of these countries. For example, while South Korea is largely focused on encouraging local production at the expense of a large domestic market, Singapore has a focus on attracting foreign investors and re-exporting their locally sourced products to Western developed markets. For Georgia, given its size, the Singapore experience may be particularly interesting. Although foreign investment plays a major role in its development history, perhaps the most interesting is how the country's government used foreign companies and their investments to transform the country's economy. To illustrate this, we can cite the following fact: while Singapore's comparative advantage in the early stages of development (60s) was cheap labor, it gradually improved the skills of the workforce to move to high-tech manufacturing. In order to achieve this, the government required investor companies to train and increase the skills of local workforce, in exchange for various concessions. As a result, if in the 1960s an investor produced the final product on the spot with imported products, in the 1980s it would be producing all the spare parts on the spot, followed by final product development and export. <sup>25</sup> At the same time, in 1980-83, Singapore began

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<sup>24</sup> Teck-Wong Soon and William A. Stoeber (1996): Foreign Investment and Economic Development in Singapore: A policy-oriented approach. The Journal of Developing Areas. Vol 30.

<sup>25</sup> Huff G. (1995) – What Is the Singapore Model of Economic Development? Cambridge Journal of Economics 19(6):735-59

the so-called "wage correction" policy" - as it considered low wages to be hindering structural transformation of the economy and only attracting investors in low-tech sectors. That is why, in cooperation with a private sector, wages rose gradually. By doing so, the country was seeking to demonstrate its comparative advantage not just by the cheap workforce, but rather by its high qualification.<sup>26</sup> We can say that this approach has worked, considering the reduction of unemployment and the economic development of the country in general.

As for employment policy, Singapore, as well as South Korea, focused entirely on the supply side during the period of economic growth (from the 1960s to the 1990s) with huge emphasis on workforce training.

Interestingly, at a later stage of development, the state is no longer actively involved in the development of the economy. However, it retains the function of the main regulator. For example, employment policy in South Korea has been focused on "supply" until the 1990s, when economic growth slowed. In response to the Asian financial crisis of 1997, elements of the "demand side" policy emerged, such as alleviating the tax burden for companies<sup>27</sup>.

So, if we sum up the experience of the "Asian tigers" we will see that well-planned industrial policies and closely linked supply side employment policies played a crucial role in the early stages of development. Later, when these countries have been transformed into "developed economies", aggressive industrial policy (hence state intervention) was reduced. At this stage, they were implementing supply policies to meet (already developed) market demand, and in the event of recessions (e.g. Asian financial crisis) they reverted to "demand side" employment policy to stimulate demand and give companies more financial incentives to create jobs.

In the Georgian context, direct replication of the experience of Asian countries is obviously impossible. However, a major take-away for Georgia could be the conclusion that the effectiveness of employment policy is largely driven by the country's macroeconomic policies. If there is no industry policy focused on structural transformation of the economy, employment policies, be it labor force training or funding for entrepreneurs, will still concentrate on low-productive sectors that are less innovative and therefore will not allow for structural transformation of the economy.

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<sup>26</sup> *ibid*

<sup>27</sup> World Bank (2013) – Republic of Korea, Workforce Development, SABER Multiyear Country Report



## 5. Conclusion

To conclude, there are certain elements of supply and demand side employment policies in Georgia. The problem, however, is that they are not logically linked and, more importantly, they are implemented without an industrial policy framework. There is an implicit assumption among the policy makers that by creating a free business environment, enough jobs will be created and the problem of unemployment will be resolved.

This policy document shows why such an approach is problematic. Experience over the past ten years has indicated that such an approach can lead to some growth in the private sector, but largely due to the absence of industrial policy, this growth happens at the expense of the low-productive service sector. Consequently, the structure of the economy cannot be changed: almost half of the workforce is still "self-employed" in the rural areas, while the majority of the remaining half are in precarious service sector jobs. Under these circumstances, the employment policy, is turning in the vicious circle: entrepreneurs are less likely to innovate, and therefore there tend to create low value-added jobs.

That is why it is important to redefine economic policy. This primarily means a strategic approach to the development of new, innovative sectors in the economy that will be supported by appropriate import, trade or employment policies. Establishing and implementing such an approach will obviously take time. Meanwhile, it is important that supply-side employment policy not only focuses on recruiting for the current low-productivity jobs, but also strives to maximize human capital qualifications; On the other hand, demand side policy (supporting entrepreneurs) should focus on innovative spheres so that they can break through a closed circle and create more "good" jobs.

## 6. Recommendations

In light of the findings above, the following is recommended:

- Employment policies require serious reconsideration. More emphasis should be placed on implementing "demand side" employment policy;
- The already existing "demand side" policies / programs in the country must be in line with the "supply side" employment policy and vice versa. In other words, the services offered by the employment services should be in logical alignment with the programs focused on the development of the private sector and the interests of the business entities created within the framework of similar projects;
- Private sector and business development programs, in turn, should be framed under a certain "industrial development" framework that will focus on the

development of innovative sectors and therefore will be oriented toward creating not only "more" but also "better" jobs.