



## SOCIAL IMPACT OF THE ASIAN ECONOMIC CRISIS

A brief review of the pre-crisis socio-economic achievements of Indonesia, the Republic of Korea and Thailand together with the impact of the crisis on those achievements will serve a useful background to later discussions. All the countries under consideration experienced rapid economic growth during the 1980s and early 1990s, together with the other Asian “tiger” economies. The Republic of Korea, in particular, was classified as a newly industrialized country and its economic performance was more spectacular compared to the other countries. From 1965 to 1995, the country experienced an annual real per capita income growth rate of 7.5 per cent. During the same period, annual growth rates of per capita income in Indonesia and Thailand were 5.7 per cent and 7 per cent, respectively.

The spectacular economic performances helped these countries to make considerable headway in poverty reduction as well as provide their populations with a better quality of life. By 1996, the head count index of poverty had fallen to 11 per cent in Indonesia and Thailand, and to 7 per cent in the Republic of Korea.<sup>4</sup> Table I.1 indicates the extent of the achievements of the three countries in the sphere of human development.

One important point to note is that the improvement in social indicators that these countries experienced was largely the result of rapid economic growth rather than concerted efforts in that direction (table I.2). Public expenditure on various social services as a percentage of gross domestic product (GDP) was generally stable between 1970-1975 and 1990-1996. However, while spending on social security and welfare doubled in the Republic of Korea, spending on education actually declined in Indonesia between 1980-1985 and 1990-1995. It appears that a high rate of

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<sup>4</sup> *Economic and Social Survey of Asia and the Pacific 2001* (United Nations publication, Sales No. ST/ESCAP/2104), p. 141.

**Table I.1. Social indicators, 1970-1995**

Indicator	Indonesia		Republic of Korea		Thailand	
	1970	1995	1970	1995	1970	1995
	Life expectancy at birth	47.9	63.7	60.6	72.0	58.4
Infant mortality rate (per 1,000 live births)	118.0	51.0	46.0	10.0	73.0	3.0
Primary school enrolment (per cent)	75.6	99.0	99.0	99.0	78.6	88.2
Secondary school enrolment (per cent)	13.0	55.0	45.4	93.4	18.2	34.9
Access to safe water (per cent of population)	3.0	65.0	58.0	83.0	17.0	89.0

Sources: T.M. Atnic and M. Walton, 1998, "Social consequences of the East Asian financial crisis" in World Bank, *East Asia: the Road to Recovery* (Washington, DC, World Bank); World Bank, 1998, World Development Indicators (CD-ROM); and World Bank, 2000, *World Development Report 1999/2000* (Oxford University Press).Sources

income growth led to improvements in purchasing power and standards of living. The quantity and quality demanded of education and health care increased in tandem, but a substantial part of the increase was supplied

**Table I.2. Public expenditure on social sectors as a percentage of GDP, 1970-1996**

Country	1970-1975	1980-1985	1990-1996
Indonesia			
Health	..	..	1.8
Education	..	1.7	1.3
Social security and welfare	..	..	..
Republic of Korea			
Health	..	..	1.8
Education	..	4.5	4.5
Social security and welfare	0.8	0.9	1.8
Thailand			
Health	..	..	1.4
Education	..	3.8	3.8
Social security and welfare	0.7	0.6	0.6

Source: World Bank, 1998, *World Development Indicators* (CD-ROM).

by the private sector.<sup>5</sup>

The impact of the economic crisis upon the real sector was drastic and harsh. Populations were directly affected by reductions in wage rates and employment, which constrained nominal incomes, and by the increase in inflation, which further eroded purchasing power. Table I.3 illustrates the severe contractions in real per capita income that occurred between 1996 and 1998.

Together with the fall in GDP per capita, all three countries experienced an increase in unemployment. In the Republic of Korea, high pre-crisis growth rates generated strong demand for labour. Consequently, the annual average unemployment rate from 1989 to 1997 remained low at around 2.2 per cent of the labour force. The rate then increased to 6.8 per cent in 1998 and then to 8.4 per cent in the first quarter of 1999. Total employment dropped from the pre-crisis level of 21.1 million in the fourth quarter of 1997 to 19 million by the first quarter of 1999. The average quarter-to-quarter employment reduction from January 1998 to March 1999 amounted to 400,000. Job losses were concentrated in the manufacturing and construction sectors. Workers at the lowest echelons

**Table I.3. Growth in real per capita gross domestic product, 1996-1998**

(Percentage)

Country	1996	1997	1998
Indonesia	8.0	4.0	-13.6
Republic of Korea	7.1	5.0	-5.8
Thailand	5.5	-0.5	-9.9

Source: S. Horton and D. Mazumdar, 2000, "Vulnerable groups and the labor market: the aftermath of the Asian financial crisis" in A. Luinstra, G. Betcherman and R. Islam, eds., *East Asian Labor Markets and the Economic Crisis: Impacts, Responses and Lessons*, World Bank and International Labour Organization (Washington, DC and Geneva).

<sup>5</sup> T.M. Atnic and M. Walton, 1998, "Social consequences of the East Asian financial crisis" in World Bank, *East Asia: the Road to Recovery* (Washington, DC, World Bank); and K. Marshall, "Social dimensions of the East Asia crisis: some reflections based on experience from the adjustment eras in Africa and Latin America", paper presented at East Asia Crisis Meeting, Institute of Development Studies, University of Sussex, 13-14 July 1998.

were most affected, manual production and clerical workers being the hardest hit.<sup>6</sup>

The Indonesian story is slightly different. In spite of a massive contraction in GDP of 13.6 per cent in 1998, triggered by the economic crisis, the overall unemployment rate increased by only 0.7 per cent (from 4.7 per cent in 1997 to 5.4 per cent in 1998). The increase in open unemployment was much smaller than experienced in other affected countries because the workers displaced from the most seriously affected industries (manufacturing and construction) were able to find some kind of alternative occupation in the agricultural and informal sectors.<sup>7</sup> In addition, Indonesia had a substantial labour force working overseas; however, with the economic crisis affecting the entire East Asian region, reverse migration from Malaysia and the Republic of Korea occurred as a result of job contraction in those countries.

The experience of Thailand was similar to that of the Republic of Korea. High output growth prior to the start of the crisis had resulted in nearly full employment, with the pre-crisis unemployment rate in 1996 standing at 2 per cent. However, employment in the informal sector had also continued to increase in the pre-crisis period, and underemployment was estimated at 7.6 per cent of the labour force in 1996. With the onset of the crisis, the open unemployment rate increased to 3.7 per cent in 1997 and then to 5.2 per cent in 1998. Wage and salary employment was most affected, with 1.2 million workers losing jobs as a result of the crisis. Women accounted for 53 per cent of the lay-offs. Underemployment among women also increased, reaching 13.7 per cent of the labour force in 1998, and real wages declined, particularly for women in urban areas. Reverse migration occurred from Bangkok and adjacent prosperous areas to rural areas, placing competitive pressure on available rural jobs. While job losses

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<sup>6</sup> Soon-Hie Kang and others, 2001, "Korea: Labor market outcomes and policy responses after the crisis" in G. Betcherman and R. Islam, eds., *East Asian Labor Markets and the Economic Crisis: Impacts, Responses and Lessons*, World Bank and International Labour Organization (Washington, DC and Geneva).

<sup>7</sup> R. Islam and others, 2001, "The economic crisis: labor market challenges and policies in Indonesia" in G. Betcherman and R. Islam, eds., *East Asian Labor Markets and the Economic Crisis: Impacts, Responses and Lessons*, World Bank and International Labour Organization (Washington, DC and Geneva).

were concentrated in construction, manufacturing and financial services, farm employment increased.<sup>8</sup>

Apart from unemployment, the other major bane of the economic crisis was rapid inflation, which eroded purchasing power and affected standards of living. The annual rate of inflation, calculated from the consumer price index, rose from an average 8.8 per cent during 1990-1996 to 57.6 per cent in 1998 in Indonesia. Over the same period, the comparable increase for the Republic of Korea was from 6 per cent to 7.5 per cent, and for Thailand from 5 per cent to 8.1 per cent. In all three countries, wage freezes and wage reductions were implemented by many businesses. As a result, there was massive erosion of real wages as shown in table I.4.

**Table I.4. Real wage growth, 1996-1998**

(Percentage)

Country	1996	1997	1998
Indonesia	6.6	4.2	-37.8
Republic of Korea	6.8	4.3	-5.7
Thailand	2.3	-1.4	-7.4

*Source:* S. Horton and D. Mazumdar, 2001, "Vulnerable groups and the labor market: the aftermath of the Asian financial crisis" in G. Betcherman and R. Islam, eds., *East Asian Labor Markets and the Economic Crisis: Impacts, Responses and Lessons*, World Bank and International Labour Organization (Washington, DC and Geneva).

Thus, the economic crisis affected the quality of life of the population in the three countries by affecting the real economy severely. The reduction in income was responsible for the reversal of many of the past achievements in the areas of poverty alleviation, health care and education.<sup>9</sup> Given that situation, the Governments concerned undertook

<sup>8</sup> M. Mahmud and G. Aryah, 2001, "The labor market and labor policy in a macroeconomic context: growth, crisis, and competitiveness in Thailand" in G. Betcherman and R. Islam, eds., *East Asian Labor Markets and the Economic Crisis: Impacts, Responses and Lessons*, World Bank and International Labour Organization (Washington, DC and Geneva).

<sup>9</sup> For a lucid discussion of the transmission channels from the economic crisis to social areas, see "Social impact of the economic crisis" in *Economic and Social Survey of Asia and the Pacific 1999*, (United Nations publication, Sales No. E.99.II.F.10), pp. 113-134.

various measures to protect income and employment, which were aimed at vulnerable groups including those made newly poor by the crisis. They were assisted in their efforts by funds from bilateral and multilateral donors. However, the policies and programmes were neither new nor hurriedly implemented. The question arises as to what extent were the measures, which were designed to assist the structurally poor and cope with unemployment under normal circumstances, able to address the massive problem of people suddenly becoming impoverished by the economic crisis? A further question is whether the lessons learnt from an evaluation of the effectiveness of those programmes might have a bearing on the design of similar policies and programmes in future. These questions form the focus of the present study.