



SOCIAL IMPACT OF THE ECONOMIC CRISIS

INTRODUCTION

A number of countries in East and South-East Asia are experiencing economic and social shocks of unprecedented severity. Output has contracted, inflation has increased and unemployment rates have soared. The status of health and education has greatly deteriorated. This is in sharp contrast to the picture in the recent past when these economies saw high growth, low unemployment and visible improvements in many indicators of social development. The crisis threatens to reverse much of the past achievement. However, efforts are being made by national governments and the international community to minimize the damage. The primary objectives of this chapter are to analyse the impact of the economic crisis on selected social indicators and to indicate policy directions for the future.

The effects of economic contraction in East and South-East Asian countries are being felt throughout the ESCAP region and beyond in varying degrees. However, the present review is concentrated on Indonesia, Malaysia, the Republic of Korea and Thailand. These are among the countries badly affected by the crisis and three of them (excepting Malaysia) had to seek emergency assistance from IMF. Although the present analysis is limited to four countries, the major conclusions derived from the analysis should have relevance for others. The indicators chosen to assess the social impact, based on the available data, which are admittedly scanty and unsystematic, are employment, poverty, health and education.

It is recognized that there are many other dimensions of social impact. The increase in unemployment and poverty is certain to have led to a rise in the incidence of crime, violence within the family, mental stress and suicides, drug trafficking, begging, prostitution, industrial unrest, racial or ethnic strife and political discontent. However, the data available on these dimensions are even more scanty, and these issues are therefore excluded from the analysis in this chapter.

The organization of the chapter is as follows. The next section provides a brief review of the pre-crisis achievements of the four countries in the area of economic growth, employment, poverty, health and education. This is followed by an analysis of the social impact of the economic crisis. The policy responses of the governments are discussed in the following section and the concluding section offers some thoughts on policy discussions for the future.

PRE-CRISIS ACHIEVEMENTS

Economic growth and social development: the links

Economic growth and social development are closely interlinked through a complex process of mutual causation. That economic growth, in most circumstances, fosters social development is commonly understood. Of late, there has been increasing recognition of the reverse causation. A detailed examination of interlinkages between economic growth and social development is beyond the scope of the present exercise. However, it is useful to indicate briefly some of the channels through which they interact in order to appreciate the pre-crisis achievements in the four countries.

Social development contributes to economic growth through improvement in the quality of human resources, which is becoming increasingly important as a factor of production. The ability to meet basic needs and the avoidance of glaring disparities create conditions for social and political stability, which is an essential prerequisite for investment (both domestic and foreign) and hence growth.

One of the most important links in the line of causation from economic growth to social development is the effect of the former on employment. It is evident that, for any given output-labour ratio, the faster the growth of output the greater is the quantum of employment. Moreover, at the early

stages of development, growth is typically engendered by more extensive use of the factor of production with which a country is most abundantly endowed, namely, labour in most developing countries. Thus, a major upward shift in growth trajectory usually occurs with a fundamental change in a development strategy that favours increase in the overall employment-intensity of output. The increased employment, in turn, generates income for a greater number of people, enabling them to acquire social services for themselves and their families.

Another link in the line of causation from economic growth to social development has to do with the role of the government. The private sector is generally unwilling to provide many social services such as basic education and primary health care because of a significant divergence between private and social costs and benefits. Private sector provision is largely profit-motivated and caters for the needs of the urban areas and higher income groups. The government has to step in to meet these deficiencies. A growing economy enables the government to generate resources required to fulfil this responsibility. There is evidence that statistically significant positive correlation exists between public expenditure on social services and achievements in social indicators such as adult literacy and life expectancy.¹

It should also be noted that rising income provides scope for the private sector to become actively engaged in the provision of many social services. Public services cannot usually keep pace with the increase in demand induced by the fast growth of per capita income. Moreover, the affluent sections of populations demand services of better quality than are typically available in public facilities, and they are willing to pay a higher price. In consequence, a market is created for private investment to be profitable.

The evidence

The spectacular success in achieving a consistently high growth rate in the four countries under discussion has been largely attributed to the

¹ See *Survey 1996* (United Nations publication, Sales No. E.96.II.F.18), pp. 151-152.

strong export performance of their manufacturing sectors.² To increase export volumes, these countries increased production of labour-intensive manufacturing, in which they had a natural comparative advantage, leading to increased wage employment. Employment growth often exceeded labour force growth.³ High employment growth ensured low rates of open unemployment. A very substantial percentage of the new entrants to the labour force could find reasonably good jobs in the growing economies. Large numbers of workers migrated from villages to cities and secured jobs. Labour markets became tight and nominal wage rates increased so much that many countries allowed foreign labour, both skilled and unskilled, to immigrate temporarily and augment the domestic workforce. Overall employment steadily increased and, along with this, the income of the general population. Women's participation in the labour market was boosted significantly. In particular, women were able to take advantage of the employment opportunities in labour-intensive and export-oriented industries such as the garment industry and electronics. Between 1980 and 1996, the share of women in the labour force in Indonesia increased from 38 to 41 per cent; in Malaysia, the increase was from 34 to 37 per cent. Women accounted for 70-80 per cent of the labour force in Malaysian export-oriented industries in the 1990s.⁴ The benefits of the higher economic growth thus trickled down through widespread employment creation, which led to a major reduction in poverty.

Table III.1 presents data which show the achievements of Indonesia, Malaysia, the Republic of Korea and Thailand in the areas of growth, per capita income, employment, health and education during the period from the mid-1980s to the mid-

² Richard R. Nelson and Howard Pack, *The Asian Miracle and Modern Growth Theory, Policy Research Paper 1881* (Washington DC, World Bank, Development Research Group, 1998), p. 5.

³ ILO, *The Social Impact of the Asian Financial Crisis*, technical report for discussion at the High-level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian Countries, Bangkok, 22-24 April 1998, p. 12.

⁴ "Women contribute to Asian economies", *Women in a Global Economy* (Bangkok, United Nations Development Fund for Women, October 1998).

Table III.1. Economic and social development in selected Asian countries, various years

	Annual growth rate of per capita GNP (percentage)		Employment (%)				Health sector				Education sector								
			Annual growth rate of employment ^a		Unemployment rate		Poverty headcount index (percentage)		Life expectancy at birth		Infant mortality rate per 1,000 live births		Gross enrolment for all levels (as percentage of those age 6-23)			Adult literacy rate			
	1985-1995		1985	1996	1985-1996		1985	1996	1987	1996	1985	1995	1985	1995	1980	1990	1995	1985	1995
	GNP per capita (\$)																		
Indonesia	6.0	530	1 080	3.0	2.1	4.9	17	13	55	64	79	50	51	58	62	74	84		
Malaysia	5.7	2 000	4 370	3.3	6.9	2.5	20 ^b	9 ^c	68	71	28	11	54	58	62	74	84		
Republic of Korea	7.7	2 150	10 610	3.1	4.0	2.0	69	72	27	8	66	74	82	96 ^d	98		
Thailand	8.4	800	2 960	1.8	3.7	1.1	22 ^e	11	64	70	44	27	49	45	53	91	94		

Sources: UNDP, *Human Development Report 1997* (New York, Oxford University Press, 1997) and *Human Development Report 1994* (Delhi, Oxford University Press, 1994); ADB, *Key Indicators of Developing Asian and Pacific Countries 1998* (Oxford University Press, 1998) and *Asian Development Outlook 1998* (Oxford University Press, 1998); UNESCO, *Statistical Yearbook*, various issues (UNESCO Publishing and Bernan Press); *Survey 1998* (United Nations publication, Sales No. E.98.II.F.59) and *Survey 1990* (United Nations publication, Sales No. E.91.II.F.10); and World Bank, *World Development Report 1997* (Oxford University Press, 1997), table 1; *World Development Report 1987* (Oxford University Press, 1987); and UNICEF, *The State of the World's Children 1987* (New York, Oxford University Press, 1987) and *The State of the World's Children 1997* (New York, Oxford University Press, 1997).

^a Refers to employed persons.

^b 1984.

^c 1995.

^d Refers to males only.

^e 1988.



1990s. Their performance in terms of economic growth has been extremely impressive, far above most other developing countries, excluding China. There were steep increases in per capita income, which more than doubled in Indonesia and Malaysia and more than tripled in the Republic of Korea and Thailand.

Consistent with the preceding analysis, rapidly rising per capita income brought about major improvements in social indicators. With healthy growth in employment during the period, unemployment rates by 1996 had become very low. The Republic of Korea had virtually eliminated absolute poverty by the mid-1980s, and significant reductions in poverty have been recorded in the other countries since then. Comprehensive improvements in health took place; life expectancy increased and infant mortality rates fell substantially. Achievements in education were equally impressive: gross enrolment ratios increased noticeably, with a very favourable impact on adult literacy rates, which in 1995 stood at well over 80 per cent for Indonesia and Malaysia and at more than 90 per cent for the Republic of Korea and Thailand. In short, by 1996, all four countries could achieve high levels of social development, aided by, as well as supportive of, fast economic growth. It follows that a dramatic deceleration in growth could break this virtuous circle.

IMPACT OF THE ECONOMIC CRISIS

The initial causes of the crisis, the path it has traversed since the outbreak and responses to deal with it clearly have a bearing on the social impact. A large body of literature has already emerged analysing the causes of the crisis, how it has played itself out and the propriety or otherwise of associated policy responses.⁵ No effort is made here to summarize this literature, which is replete with contentious views. This next section looks briefly at some of the channels by which the crisis was transmitted to social areas, and the consequent eroding of the gains achieved earlier.

⁵ For the contribution of the ESCAP secretariat to this literature, see *Survey 1998*, pp. 86-103 and *Development Papers No. 20* (forthcoming).

The transmission channels

A major feature of the economic crisis which began in the second half of 1997 in the four countries was the flight of foreign capital leading to a steep depreciation of the national currencies which, in turn, induced further outflows. The huge depreciation made it extremely difficult for many private commercial enterprises to service their loans, which were denominated in foreign currency. Commercial banks and financial institutions became extremely conservative in extending credit and many enterprises which were otherwise healthy and not significantly affected by the currency depreciation could not operate for lack of working capital. Many others became bankrupt and closed down. The amount of non-performing loans in the banking system rapidly increased, further worsening the credit crunch. Output fell, unemployment increased, wages and income were reduced and the incidence of poverty multiplied.

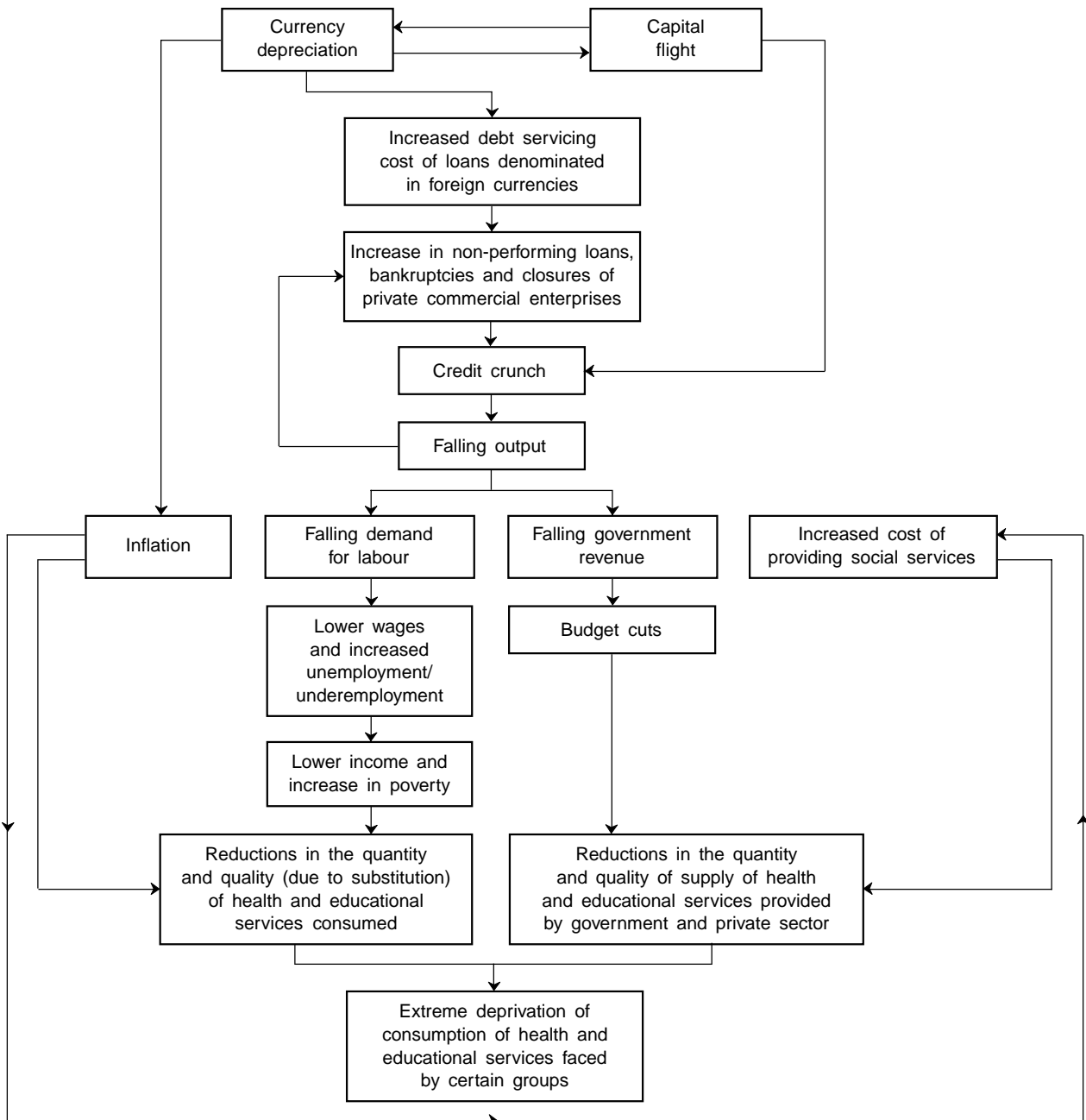
The depreciation of national currencies led to increased prices of imports, which fuelled inflation. The combination of rising prices and falling income was responsible for a large contraction in private consumption expenditure. The quantitative decline was also accompanied by a change in consumption patterns involving the substitution of cheaper, low-quality goods and services for better-quality, expensive varieties. Similar adjustments took place in the consumption of social services, particularly health and educational services.

Government revenue came under severe strain. As real GDP contracted, the tax base shrank. Also tax-to-GDP ratios fell. The estimated tax-to-GDP ratio in 1998 was four percentage points less for Malaysia and 2.8 percentage points less for Thailand than in 1997. With a shrinking base and lower ratio, tax revenue declined sharply. Simultaneously, with increases in general price levels, the cost of providing public services tended to increase. The options to increase budget deficits were limited by the conditions of the various bailout packages negotiated by three of the four countries. In the wake of falling revenue and limits on deficit, governments had to impose expenditure cuts which affected their capacity to maintain or augment the level of services. There was also a reduction in the supply of these services by the private sector, which was confronted with falling demand, rising costs and lower profits.

Figure III.1 shows the channels of transmission of the economic crisis to employment, poverty, health and education. The specific impacts of the crisis

are, of course, somewhat different for each area. These are discussed in some detail in the following paragraphs.

Figure III.1. Major channels of transmission of the economic crisis to social areas



Source: Adapted from Ammar Siamwalla and Orapin Sobchokchai, *Responding to the Thai Economic Crisis* (Bangkok, UNDP, 1998), p. 19.

Employment and poverty

The sudden reversal of economic growth as a result of the crisis dealt a blow to employment prospects and, in fact, caused a major reduction in the labour force employed by the private sector. As output contracted, so did the demand for labour. In consequence, substantial retrenchment of labour took place and new hiring came to a halt. This minimized the opportunities of new entrants to the labour force to secure employment. Even in the public sector, the workforce had to be downsized as a result of expenditure cuts. Some of the retrenched labour found jobs in the urban informal sector; some went back to their villages to earn a livelihood in the rural informal sectors and in agriculture, somewhat reversing the village-to-city migration trends which had occurred in the pre-crisis years of high economic growth. In addition, many immigrant workers were forced to go back to their countries of origin. However, despite these adjustments, open unemployment in all the affected countries increased substantially.

The impact on women workers, who were able to secure employment in the pre-crisis high-growth period, was severe. Owing to their position in the labour market, where they were concentrated in the "most precarious" forms of low-skilled wage employment, women were more vulnerable to lay-offs. Their vulnerability was further exacerbated by the attitude of employers, who regarded women as secondary income earners and so terminated their employment before that of men.⁶

The falling labour demand had a depressing effect on formal sector wage rates. At the same time, owing to the influx of new entrants and workers who had lost formal sector jobs in the informal and agricultural sectors, underemployment increased and the average income per worker decreased. The combined effect of falling earnings per worker and rising unemployment and underemployment amounted to sizeable losses of income for individuals and families. These losses were further exacerbated by the absence of any significant

institutional unemployment benefit schemes in most of the affected countries.⁷ Higher inflation triggered by the currency depreciation led to severe erosion in real purchasing power and pushed the consumption of a large number of persons to below poverty thresholds. The number of the poor increased sharply.

Table III.2 shows the unemployment rates for the four countries in 1997, when the crisis had just started, and in 1998 when the full effect was felt. The estimated number of unemployed in 1998 is also shown. The increases in unemployment rates were extremely large in the span of one year: over 130 per cent in Malaysia and Thailand, around 200 per cent in the Republic of Korea and over 350 per cent in Indonesia. The numbers of unemployed in 1998 varied between 600,000 in Malaysia, 1.5 million in the Republic of Korea and Thailand, and 20 million in Indonesia. These numbers amply indicate the graveness of the unemployment problem created by the economic crisis.

Among the unemployed are both new entrants to the labour market and those who were retrenched from their jobs. Retrenchment of workers has been widespread in all the countries. In Thailand, at the onset of the financial crisis, 56 financial firms were closed down, rendering a large number of professionals unemployed; in the third quarter of 1998, it was estimated that some 250,000 workers were retrenched and by the end of 1998, another 200,000 were likely to become unemployed. In Malaysia, between January and July 1998, a total of 49,479 retrenchments were reported.⁸ In Indonesia, the figures are

⁷ Only the Republic of Korea has formal unemployment insurance, although coverage is limited to firms with more than five workers (before June 1998, the threshold was 10 workers). See Sanjeev Gupta and others, "Mitigating the social costs of the Asian crisis", *Finance and Development* (September 1998), pp. 18-21.

⁸ Raj Karim and Rabbi Royan, "The impact of the crisis on population and reproductive health in Malaysia", report prepared for the UNFPA/ANU study on the effects of the financial and economic crisis on the attainment of ICPD goals in the East and South-East Asian region, Bangkok, 15-17 October 1998, p. 17.

⁶ ILO, *Social Impact*, p. 27.

Table III.2. Open unemployment in the affected countries before and after the crisis

	1997	1998	
	Unemployment rate (percentage)	Unemployment rate (percentage)	Number unemployed (millions)
Indonesia	4.7	21.3 ^a	20.0
Malaysia	2.7 ^b	6.4 ^c	0.6
Republic of Korea	2.6	7.7 ^c	1.5
Thailand	1.9	4.4	1.5

Sources: ADB, *Key Indicators of Developing Asian and Pacific Countries 1998* (Oxford University Press, 1998); data provided by the Human Resources Planning Division, National Economic and Social Development Board, Thailand; *The Nation*, 24 July 1998, *Asian Wall Street Journal*, 24-25 July 1998; *Far Eastern Economic Review*, 9 July 1998; and "The impact of the crisis on population and reproductive health in South-East Asia", draft integrative report prepared for the UNFPA/ANU study on the effects of the financial and economic crisis on the attainment of ICPD goals in the East and South-East Asian region, Bangkok 15-17 October 1998.

^a Estimate refers to end of 1998.

^b Estimate refers to June 1997.

^c Estimate refers to June 1998.

overwhelming: 13.4 million people lost their jobs in the period up to June 1998 as corporations were forced to close or trim their payrolls and downsize.⁹

Disaggregated information on lay-offs and retrenchments by gender, level of education or category of skill or sector is not available. The information presented below relates mostly to Thailand, but it can be reasonably assumed that the nature of the labour market problems generated by the crisis is similar for the other countries as well, though the scale is bound to be different.

Women formed a large, and at times disproportionately higher, proportion of the retrenched workers. In Indonesia, the textile industry, which employed mostly women, had already laid off half a million workers by March 1998. In Thailand, by February 1998, women comprised 80 per cent of the unskilled labour laid off in the manufacturing sector. In the Republic of Korea, 60 per cent of workers in small businesses employing fewer than five persons

were women. Many small businesses were bankrupted by the credit squeeze and cash flow problems and the process of adjustment has turned out to be particularly difficult for women who have lost their jobs (see box III.1).

Although contraction in private sector activities was the major cause of retrenchments, reductions in public sector employment were also responsible. It has been reported that about 70,000 primary school teachers in Thailand will find themselves without a job in 1999 because of government policies to streamline and rationalize the education system as a result of the economic crisis. Also, a large number of government contractors and temporary staff were out of work during the course of 1998 owing to fiscal constraints of the government. Loss of work of government contractors has had a multiplier effect on the unemployment situation. These contractors must have downsized or retrenched a large number of skilled and semi-skilled workers who were working for them, and they did not hire new workers.

A sizeable proportion of those who lost their jobs may not be able to rejoin the workforce when economic growth resumes in the future. It will be difficult for some of them to find work as their skills

⁹ "Millions out of work as firms close shutters", *The Nation*, 24 June 1998.

Box III.1. The plight of women workers and their adjustment to the crisis

A recent survey conducted in Thailand found that mass lay-offs in 1998 mostly took place in the textiles and electronics industries, where 90 per cent workers were women. Business losses were claimed as the major reason for laying off workers. Most of the laid-off women workers were aged 40-50 or near retirement. The employers chose to retrench the more senior workers to cut operating costs arising from higher emoluments associated with seniority. Most of them were workers with low skills who had spent most of their lives in the industrial sector. Many found it difficult to find new jobs or did not expect to find new jobs as their qualifications did not match current requirements.

Most of these women workers were supporting their families and had children to take care of. To cope with the situation, some turned to smaller or

subcontractor factories, most of which paid much lower wages, maintained very poor working conditions and violated labour laws. Some switched to informal occupations such as selling fruits and desserts and making dresses, while many returned to their homes in rural areas. A large number of retrenched women were forced to depend completely on their husbands and relatives. Many of them were refused help by their husbands, who did not want to bear the burden of an unemployed wife. Some women were beaten by their husbands, who often looked for new wives.

Source: Anjira Asvananda, "Women workers hit hard", *Bangkok Post*, 20 December 1998.

may become obsolete with the restructuring of economies during the next phase of economic growth. They could face long-term unemployment unless they are provided with retraining and appropriate skill development facilities to prepare them for future job markets.

As adjustments from a higher standard of living to a much lower one caused visible misery and pain, the plight of workers retrenched because of the economic crisis caught considerable national and international attention. One group whose dreams of achieving a higher standard of living were shattered by the economic crisis consisted of those who had newly entered the labour market and could not find jobs. This group was expected to be large. In Thailand, 490,000 persons, including the highly educated, could not secure jobs in 1998. It follows that a large number of new university graduates in Thailand will join the ranks of the unemployed in early 1999. The reduction in public sector resources has also been responsible for the lack of job opportunities for new entrants. In Thailand, over 8,000 medical graduates who received scholarships from the Ministry of Public Health will not be accommodated in the public sector health services in 1999 as a result of

budget cuts and a manpower freeze. These graduates who, under normal circumstances, would be absorbed into government hospitals and clinics, have to find jobs elsewhere or become self-employed.

Self-employment activities sometimes provided viable options for skilled professionals who were first-time job-seekers but could not find employment. However, the option for most low skilled or unskilled was to join the informal sector, leading to an increase in underemployment. It was estimated that the number of underemployed people in Thailand who worked less than 40 hours a week increased to 7.4 million in 1998 from 5.3 million in 1997, an increase of about 40 per cent.¹⁰ Of 2.1 million additional underemployed persons, 930,000 were working less than 20 hours a week.

In addition to retrenchment and increasing underemployment, wage reductions, including non-payment of salaries, contributed to the misery in the form of reduced earnings. It was reported that, in

¹⁰ "Not enough attention' paid to underemployed", *The Nation*, 23 September 1998.

Thailand, wages were cut for those who were kept in their jobs during the economic crisis.¹¹ In the Republic of Korea, an increasing number of workers were not paid; according to one estimate, the amount of unpaid wages more than tripled to \$334.6 million in May 1998 from January of the same year as companies withheld pay in a bid to survive the economic downturn.¹²

The phenomenon of reverse migration from cities to villages was visible. A significant number of the unemployed went back to rural areas to avail themselves of the traditional support system provided by families and communities. It was estimated that, during the third quarter of 1998, at least one million people who were working in cities had already returned to their villages.¹³

Another fallout of the crisis was the repatriation of foreign workers, and a significant percentage have already been sent back to their countries of origin. It was reported that, from the beginning of the crisis up to the third quarter of 1998, some 250,000 foreign workers left Thailand. The Republic of Korea granted amnesty to illegal foreign workers who left the country voluntarily and about 50,000 did so in 1998. About 50,000 out of an estimated 2 million legal and illegal foreign workers left Malaysia in the same year.¹⁴

The mounting retrenchment, the failure of the new job-seekers to find employment, the erosion of earnings of those who managed to stay on the payroll and the increase in inflation brought about a sharp increase in poverty. It was estimated, in the middle of 1998, that nearly 80 million Indonesians out of a population of 200 million earned less than

\$4 a month, and the number of the country's poor swelled to 40 per cent from only 11 per cent in 1997.¹⁵ In Malaysia, poverty was estimated to have risen from 6.8 per cent in 1997 to 8 per cent in 1998.¹⁶ In Thailand, the incidence of poverty increased from 11.4 per cent in 1996 to 15.3 per cent in 1998.¹⁷

Health

The sharp decline in income had a negative impact on the consumption of health services and this was exacerbated by the increase in prices of health-related inputs during the crisis. These negative effects were magnified by a reduction in health facilities provided by employers in the formal sector; retrenched workers mostly lost access to the facilities whereas those who kept their jobs faced a reduction in coverage. The cost of imported drugs and other accessories, which constituted a substantial portion of the cost of medical services in most countries, escalated substantially because of the depreciation of national currencies. Along with downward adjustments in the quantity of services demanded in response to income losses and price increases, some adverse substitution also occurred. In particular, the use of expensive medical services available in private hospitals and clinics declined in favour of the less expensive services provided by government hospitals, and urgent curative care received attention to the comparative neglect of preventive services.

¹⁵ However, some studies indicate that although the crisis has been very severe in Indonesia, different parts of the country and society are affected unevenly and the extent of increase in poverty may not be that high.

¹⁶ "The impact of the crisis on population and reproductive health in South-East Asia", draft integrative report prepared for the UNFPA/ANU study on the effects of the financial and economic crisis on the attainment of ICPD goals in the East and South-East Asian region, Bangkok, 15-17 October 1998, p. 26.

¹⁷ Damrong Boonyoen, Kua Wongboonsin, Viroj Tangcharoensathien and Patcharawalai Wongboonsin, "The impact of the crisis on population and reproductive health in Thailand", report prepared for the UNFPA/ANU study on the effects of the financial crisis on the attainment of ICPD goals in the East and South-East Asian region, Bangkok, 15-17 October 1998.

¹¹ Somsak Tambunlertchai, "The social impact of the financial crisis in Thailand and policy responses", paper prepared for the Regional Conference on Social Implications of the Asian Financial Crisis organized by the Korea Development Institute and UNDP, Seoul, Republic of Korea, 29-31 July 1998.

¹² "South Korea sees increase in ranks of unpaid workers", *Asian Wall Street Journal*, 6 July 1998.

¹³ Keith B. Richburg, "Jobless Asian migrants ending up down on the farm", *International Herald Tribune*, 9 September 1998.

¹⁴ Ibid.

The extent of private sector participation in augmenting health facilities in the four countries was substantial and in each of the countries, the supply of private health care services was adversely affected. Because of the demand substitution discussed above, the scale of operation of private health facilities was reduced and often became no longer profitable. New investment in private hospitals stopped, and many hospitals with a large foreign debt faced closure. The reduction in private health facilities put a further burden on government as people were compelled to make more use of public facilities.

On the other hand, the public sector's ability to cope with the increased demand for its services was constrained by the increased cost of medical services, especially drugs, and the limited budgetary resources at its disposal (reflecting reduced government revenue and limits on budget deficits). Constrained by reduced resources, governments often downsized their professional workforce (doctors, nurses and health technicians), which adversely affected their capability for maintaining quality of service. In many cases, expenditure on fixed investment in government hospitals and clinics was reduced. This could have reduced the capacity of hospitals to buy diagnostic health machines and other important equipment. Such reductions could affect both the quality and the quantity of health services in the short and long run. Many health programmes and services were discontinued altogether, including some programmes in the area of preventive health.

Many of the impoverished were compelled to cut consumption of health services to dangerously low levels. The crisis increased the opportunity costs of health care; time spent on visiting health care centres could be spent on pursuing income-earning activities. Children are likely to have been badly affected. A study on the effect of the Latin American economic crisis on the health sector showed that, whereas mortality and morbidity in the short run were somewhat independent of economic conditions, child malnutrition and infant mortality increased appreciably during the crisis.¹⁸ A similar effect can be expected as a result of the current Asian crisis.

¹⁸ "Health and development: repercussion of the economic crisis", a report (CE103/7) presented at the 103rd Meeting of the Executive Committee of the Pan American Health Organization, Washington DC, June-July 1989, p. 9.

Recent facts and figures on the effect of the economic crisis on the health sector in the four countries are scanty, but some illustrative information is given below which supports the situation discussed in the above paragraphs.

The price of health services in some countries increased mainly because of increases in drug prices. In Thailand, by January 1998, the wholesale price of imported drugs had increased by 20-25 per cent. Prices of locally produced drugs increased by 15-18 per cent.¹⁹

Loss of real purchasing power induced consumers to substitute less expensive health services supplied by government hospitals and clinics for the expensive health services provided by the private sector. A health survey carried out in Thailand in late 1998 found clear evidence of substitution; a private hospital in a Bangkok suburb watched its average daily patient count drop from 900 to 400 in the year while 5 kilometres away the average number of patients in a government hospital increased from 2,000 to 2,300 per day.²⁰ It was reported in the survey that 92 government hospitals run by the Ministry of Public Health had already had to take 1.4 million patients in the first six months of 1998, a 50 per cent increase over the same period in the preceding year. It was reported that, in Malaysia, many more women in 1998 chose to deliver their babies in government hospitals as they could no longer afford delivery charges in private hospitals.²¹ The concern of a paediatric specialist in Malaysia that parents waited for their children to be really sick before consulting a doctor could be taken as an evidence of reduced demand for health services.

In Thailand, many of the private hospitals in Bangkok had substantial foreign currency loans and had to confront serious repayment problems in the

¹⁹ Suwit Wibulpolprasert, Viroj Tancharoensathien and Jongkol Lertiendumrong, "The economic crisis and responses by health sector in Thailand in 1997-98" (SEA/NHP/Meet/98.2/Inf.Doc 7/11), paper presented at the Regional Consultation on Health Implications of the Economic Crisis in the South-East Asian Region, 23-25 March 1998, Bangkok, p. 2.

²⁰ "Poor fight for place in clinics as queues go middle class", *The Nation*, 5 October 1998.

²¹ Karim and Royan, "Impact of the crisis in Malaysia", p. 29.

wake of the steep devaluation of the national currency. Newly opened private hospitals suffered most. Experts have estimated that 35 per cent of the private hospitals could be closed in the next two to three years. In 1998, these institutions resorted to steep expenditure cuts, including closing down under-occupied wards.²² Expenditure reduction by governments also affected the liquidity position of private hospitals. In Thailand, the Ministry of Finance terminated the privileges of government employees under which they were entitled to use inpatient services in private hospitals. This action was expected to seriously affect cash flows in private hospitals, especially at the provincial level, as civil servants were a significant part of their clientele.²³ A reduction in medical facilities provided by private sector employers also had a similar effect. In Malaysia, in 1998, several private companies imposed limits on the medical claims of their employees, which resulted in a decreased patient load in private hospitals and clinics that private sector employees used to visit.²⁴

In some countries, the public health sector suffered budget cuts. In Thailand, the overall budget for 1998 was cut three times. The 1998 budget of 800 billion baht was 5.1 per cent smaller than the 1996 budget of 843 billion baht.²⁵ When the effect of inflation is included, there was a very high real reduction of the overall budget. It may be noted from chapter II that inflation in 1998 increased by nearly 50 per cent as compared to the rate recorded in 1997. The specific budget for the Ministry of Public Health in 1998 (59 billion baht) was in real terms far less than the budget in 1997. The effect of the cut was felt in two ways. First, within the health budget, investment expenditure was reduced significantly from 39 per cent in 1997 to 27 per cent in 1998.²⁶ This was expected to constrain the capacity of government hospitals to acquire fixed

equipment, including large diagnostic machines. Second, both the quality and the quantity of medical services were reduced. Budget cuts and increased inflation forced government hospitals in Thailand to abandon many prevention programmes, including the distribution of free condoms and contraceptive pills. In addition, cheaper medicines and cheaper powdered milk for HIV-infected mothers were used in government hospitals. As noted earlier, the budget cut in Thailand also led to a reduction in manpower associated with providing health services: 8,000 new medical graduates, including medical technicians, would not be hired by the government. This may lead to a deterioration of the quality and coverage of services provided in government hospitals. The situation was not expected to improve in fiscal year 1999, when the Ministry of Public Health is expected to operate with a budget of 57 billion baht, dropping from 59 billion baht in the previous fiscal year.²⁷

In Indonesia, the nominal health budget for the fiscal year 1998/99 was cut by 4 per cent from its level in the previous year.²⁸ Given the high inflation rate existing in 1998, which showed a sevenfold increase over that of the previous year, this cut must have adversely affected the government's capacity to provide services. However, nominal health budgets were not reduced in all the countries. In Malaysia, the budget allocation for the Ministry of Health for 1998 was 6 per cent of the national budget compared with 5.75 per cent in 1997 in contrast to cuts of 18 to 20 per cent across the board for all other sectors. It has been further reported that the procurement, supply and availability of essential drugs, including vaccines and contraceptives, were not affected. The operating budget of primary health care and family health development for 1998 was increased by about 20 per cent to 307 million ringgit.²⁹

²² Wibulpolprasert and others, "Economic crisis in Thailand", p. 14.

²³ Ibid.

²⁴ Karim and Royan, "Impact of the crisis in Malaysia", p. 29.

²⁵ Wibulpolprasert and others, "Economic crisis in Thailand", p. 9.

²⁶ Ibid.

²⁷ Wibulpolprasert and others, "Economic crisis in Thailand", p. 10.

²⁸ Sri Moertiningsih Adioetomo and Siswato Agus Wilopo, "The impact of the crisis on population and reproductive health in Indonesia", report prepared for the UNFPA/ANU study on the effects of the financial and economic crisis on the attainment of ICPD goals in the East and South-East Asian region, Bangkok, 15-17 October 1998, p. 39.

²⁹ Karim and Royan, "Impact of the crisis in Malaysia", pp. 25-26.

The rising incidence of poverty will further compound health problems by causing more widespread malnutrition. Lack of nourishment weakens the immune system of the impoverished, and they become highly vulnerable to diseases. The incidence of infectious diseases such as tuberculosis is likely to increase. Among the impoverished groups, the most vulnerable are pregnant women, children and the elderly. Lack of provision of health services, including immunization facilities and nourishment for these sections of the population have long-term consequences. The health of children could be permanently impaired. At the same time, the erosion of preventive services such as anti-mosquito programmes could increase the incidence of malaria and dengue fever.

It has been reported that, in 1998, malnutrition in Indonesia was rising rapidly as families could no longer afford rice, sugar, flour, vegetables and cooking oil, the prices of all of which doubled. Severe malnutrition was beginning to show up among children in remote villages. Many pregnant women could no longer afford prenatal care and the

nutrition and health of the newborn could be damaged. Child immunization had been nearly universal in Indonesia, but this could be affected by the dislocation of Indonesia's volunteer-based health care system. A system of 250,000 local health and welfare centres were no longer working well as many of the volunteers, numbering more than one million, had to engage in work to feed their own families. As a result, child health deteriorated severely. In the third quarter of 1998, 65 per cent of children under three years of age were anaemic and 50 per cent under two were suffering from lack of micronutrients.³⁰ According to one estimate, infant mortality in Indonesia could rise by 30 per cent after being reduced by two thirds in the last 25 years.

The crisis had a considerable impact on the state of reproductive health in some countries (box III.2). Budget cuts forced many government

³⁰ "UNICEF malnutrition warning", *Bangkok Post*, 20 October 1998.

Box III.2. The economic crisis and reproductive health

The economic crisis has most probably produced a disproportionately adverse effect on reproductive health, which encompasses the state of women's health with an emphasis on family planning. While no documented evidence is readily available, there are indications that the following forces have been in operation.

The crisis has increased pressure on young women to join the commercial sex industry. The rising incidence of poverty has left no alternative for many jobless and retrenched women but to sell their bodies to supplement family incomes. Commercial sex workers and their clients (who have the potential to infect their wives) face increased exposure to sexually transmitted diseases, including HIV/AIDS, as the use of condoms has fallen because of higher costs and the disruption of the free distribution programmes.

A strong foundation for a long and healthy reproductive life requires that the needs of adolescents and youth are met effectively. Even before the crisis, promoting sex education for unmarried persons and catering for their associated needs were regarded as too sensitive for many governments. This issue has become even more complicated because the increasing number of drop-outs from the education system (discussed in detail in this chapter) and increasing unemployment, including that of young workers, imply that these young people have been

forced to abandon their normal activities and have become dispersed.

Providing access to a safe abortion facility is another controversial issue, but it is important for ensuring the improved reproductive health status of women. A major motivation for seeking termination of pregnancy is pressure on family budgets and such pressure has increased during the crisis. As legal abortion facilities were already either restricted or not available, unsafe abortions to terminate unwanted pregnancies could increase.

Even in the pre-crisis period, the provision of many reproductive health services (with regard to premarital sexuality, unwanted pregnancies etc.) by governments provoked moralistic objections. During the economic crisis, with national budgets facing deep cuts, governments are not well placed to strengthen or preserve comprehensive reproductive health programmes as there is no popular pressure on assigning priority to such programmes.

Source: The information in this box is taken from UNFPA/ANU, *Southeast Asian Populations in Crisis* (New York, UNFPA, 1998), pp. 19-26 and input provided by the UNFPA Country Support Team for East and South-East Asia.

hospitals, such as those in Thailand, to abandon many prevention programmes, including the distribution of free condoms and contraceptives. The absence of these programmes could have serious long-term implications. Such actions could significantly increase the number of HIV-infected persons in the future, leading to loss of both financial and human resources.

One other health problem which has become exacerbated during the crisis is related to mental health. With rising unemployment, a severe drop in income and the increased cost of basic needs, there have been sharp increases in mental stress of persons affected by the crisis, creating problems such as suicide, family tensions, violence against women and child abuse.

Education

The impact of the crisis on education has been broadly similar to that on health. Specifically, reductions in income suffered by the population led to downward adjustments in demand. Less expensive education provided by government-run schools or by domestic universities was substituted for higher cost (and presumably higher quality) education such as that provided by private schools and foreign universities. The cost of education provided by foreign universities became prohibitively high owing to steep depreciations of national currencies.

Both private and public sector educational institutions had to cope with decreasing financial resources. This affected their capacity to provide educational services. The quality of education was expected to be adversely affected. For example, lack of resources could lead to cutbacks in the number of teachers and equipment such as computer and laboratory apparatus.

For many in the impoverished groups, education of children was no longer affordable, leading to drop-outs at all educational levels. In certain cases, former students took to income-earning activities to augment family incomes. Drop-outs from school, especially of young children opting out at primary level, are cause for serious social concern. It may never be possible to get these students back into the educational system, causing permanent loss to society.

For education to be effective, two aspects can be considered to be of equal importance: access to education and the absorption ability (power of brain) of the students. The latter is related to the maintenance of adequate nutritional standards. Both aspects were expected to fall during the crisis, resource constraints affecting access and heightened poverty affecting nutrition.

The available evidence, admittedly sketchy, supports the repercussions noted above. In Thailand, no systematic data on movements of students studying in overseas schools and universities were available. However, it has been noted that many students studying abroad were unable to bear the high costs after the depreciation of the national currency and might have returned home.³¹ A survey carried out in February 1998 to assess the impact of the current economic crisis on recruitment at British universities showed that the number of withdrawals was highest for Malaysia, which had offered liberal government scholarships to students studying abroad. Furthermore, Malaysia was likely to move faster towards localization in the provision of education.³²

On the domestic front, both private sector and public sector educational institutions faced resource problems. The capacity of students to pay fees was severely eroded. Many private schools and colleges suffered from a liquidity crunch because of uncollected tuition fees. The amount of delayed tuition fees rose sharply to 1,889 million baht (\$47 million) in 1998 from 517 million baht (\$13 million) in 1997. The phenomenon cut across all levels of education. Among privately owned institutions, 402,252 students in secondary schools defaulted in their payments, followed by 129,000 students in colleges and 233 students in universities.³³

The financial conditions of government educational institutions were affected as budgets were cut. In Thailand, the 1998 budget for the Ministry of

³¹ Tambunlertchat, "Social impact in Thailand", p. 19.

³² "Asian crisis hits British institutions", *UKEF Higher Education News*, 16 March 1998.

³³ "Slump deals a blow to private schools, colleges", *Bangkok Post*, 18 October 1998.

Education reflected a 6 per cent reduction over the 1997 budget.³⁴ In real terms, the reduction was possibly much more and could have constrained the government's efforts to maintain educational standards.

Loss of family income caused a large number of children to drop out of the educational system. In Thailand, it was estimated that, by July 1998 a large number of students (254,217) had had to end their studies because of the effect of the economic crisis on their family income. Data from another source show that the highest drop-out rate was at the primary level (47 per cent), followed by lower secondary (13 per cent) and then the upper secondary level (4 per cent). The proportion of Thai elementary school students who went to middle schools in 1998 was down to 81 per cent from 90 per cent in 1997. The proportion of middle-school students going on to high school also fell by 7.3 percentage points.³⁵

According to one estimate, about 25 per cent of children and youth in Indonesia who should have been in school in mid-1998 could have dropped out. The biggest number of drop-outs is likely to have been among 12-15-year-olds whose parents could not afford school fees charged by the school. A survey conducted in provinces far from the capital observed that families were finding it difficult to pay even the "parent association fees". Absence from schools grew as children spent more time helping parents to make money, showing the high opportunity cost of children's time during the crisis. Among the children who dropped out of elementary schools in poor areas of Indonesia, a great majority were girls. Girls were often discriminated against with regard to education as it was thought that, during the crisis, it was better for girls to stay at home, so that the money saved could be spent on boys.³⁶

³⁴ WHO Regional Office for South-East Asia, "Background paper" (SEA/NHP/Meet/98.2/Inf.Doc 8/12) for the Regional Consultation on Health Implications of the Economic Crisis in the South-East Asian Region, Bangkok, 23-25 March 1998, p. 4.

³⁵ "Poverty forces Thai pupils from school", *Asian Wall Street Journal*, 7 September 1998.

³⁶ "Because of these constraints women are more affected by the crisis", *Women in a Global Economy* (Bangkok, United Nations Development Fund for Women, October 1998).

It was mentioned earlier that drop-outs from schools, especially of young children, poses a long-term problem for society. It will be very difficult to bring them back into the educational system. Also, the absorptive capacity of those who remain in the school system or who may eventually return to the system may be impaired by malnutrition. Owing to the widespread lack of nutrition and the incidence of anaemia among children in Indonesia, experts have warned that the current economic crisis could drive down the average IQ level of a generation by seven percentage points.³⁷

RESPONSES TO THE CRISIS

As indicated before, countries in East and South-East Asia benefited from a virtuous circle in which economic growth and social development reinforced each other until the onset of the crisis. The designing of safety nets to provide a cushion for a large number of people affected by a prolonged jolt of high intensity did not feature prominently on their policy agenda as they did not perceive any major threat to the continuation of their growth momentum. Suddenly hit by unprecedented turmoil, these countries had quickly to design and implement programmes and policies to arrest rapidly deteriorating social conditions without much prior preparation. As the preceding section has shown, the scale of the impact was enormous and the misery suffered by the people was sometimes overwhelming. Governments were constrained by the paucity of resources, financial as well as human and institutional, to develop a rapid response. In recognition of this, international organizations and donor communities came forward and augmented national capacities for formulating and implementing policies and programmes.

The following paragraphs provide an overview of the policies and programmes designed and implemented by governments to save vulnerable groups from slipping into extreme social deprivation. Given the scope of the chapter, only selected programmes

³⁷ "UNICEF malnutrition warning", *Bangkok Post*, 20 October 1998.

and policies designed or implemented in the four countries have been used as examples. It should be noted at this stage that the responses have not been identical. The rationale is that, despite similarity in the broad contours of the social impact, there are considerable differences in detail among the countries.

Indonesia

In Indonesia, a major social safety net programme has been initiated to overcome the immediate adverse effects of the economic crisis. The priorities include improving food security, creating employment, developing small and medium-sized enterprises, and providing basic services, particularly in health and education. The programme has a total allocation of 17.25 trillion rupiah (around \$1.8 billion). Non-government community development groups are involved in supervising and monitoring the use of funds.

The programme is intended to strengthen the ability of the persons affected by the crisis to cope, especially in the villages and small towns, which have been worst hit. The programme has a number of specific objectives. These include ensuring the supply of basic staples at affordable prices through subsidies; creating employment opportunities by promoting labour-intensive production and reinvigorating economic activities, especially through small and medium-sized enterprises; and guaranteeing basic health and education services at prices which the general public can pay. The implementation of the programme is yet to begin with full force.

One of the earliest measures taken in Indonesia was to minimize the impact of the crisis on access to curative health care. Drug prices were kept under control by fixing the exchange rate for the import of drugs and raw materials for the manufacture of drugs in the country at levels far below the market rate. Initially, the exchange rate was set at 5,000 rupiah to the dollar in contrast to a prevailing exchange rate of twice that amount. Later, as the market exchange rate climbed to 15,000, the fixed rate was raised to 6,000. These actions implied a considerable amount of subsidy to

consumers and drug manufacturers, but seem to have accomplished the primary goal of stabilizing drug prices. In the first half of 1998, there was very little increase in drug prices in rupiah terms.³⁸

At the initiative of the Governments of Indonesia and Thailand, WHO has agreed to work out a mechanism to enable countries in the region to purchase essential drugs and raw materials from other countries in the region, which could substantially reduce the import cost, and thus the price of drugs. A study has revealed that Indonesia could save 30 to 40 per cent in the cost of drugs if it procured raw materials for certain life-saving drugs from countries such as, China, India and the Republic of Korea. It has also been reported that bilateral negotiations between some exporting and importing countries have started. As the capacity to produce finished drugs already exists in both Indonesia and Thailand, such imports could be immediately utilized for manufacturing drugs at lower cost, as well as for stimulating the pharmaceutical industry.

In the area of education, the Government of Indonesia has been trying to keep as many students as possible in school through a combination of waiving fees, financial aid programmes and grants. Resources from the World Bank and ADB have been mobilized for this purpose.

Malaysia

The Government of Malaysia has introduced both direct and indirect measures to ameliorate the decline in social welfare arising from the economic crisis. The objectives of these social programmes have been to prevent runaway inflation, ensure adequate food supply and minimize retrenchment.

One of the main concerns was to ensure that price increases would not be excessive. In this regard, direct subsidies were given for selected basic food items such as cooking oil, rice and sugar. Steps were also taken to liberalize imports of food

³⁸ "Impact of the crisis", UNFPA/ANU draft integrative report, p. 33.

such as beef, chicken and vegetables, with the aim of ensuring an adequate food supply. Export of some basic items, namely sugar, flour, cooking oil and condensed milk, was disallowed for the same reasons. In addition, price controls were instituted for basic food items. In another attempt to increase the food supply, a project to increase the production of vegetables and fish was initiated. The sum allocated for this programme in 1998, called the Fund for Food, was increased from \$157 million to \$263 million. The pegging of the ringgit exchange rate of M\$3.80 to \$1 from 1 September 1998 was expected to restrict the effect of imported inflation and minimize the erosion of consumers' purchasing power.

Malaysian companies facing a severe business downturn are being encouraged to introduce other schemes rather than terminate employees. For example, in the automotive industries, which faced a drop in production, more than 60 per cent of car assembly companies have embarked on schemes to give workers half pay (half-time employment) for a certain period, in the hope that business will recover and the workers can be given full employment again. To help retrenched workers find other jobs, an electronic labour exchange has been set up to match the needs of employers with prospective employees. Retrenched workers are also being encouraged to enrol in training programmes and the government has expanded training facilities.

To reduce the cost of tertiary education, the government has permitted 10 private colleges to conduct selected foreign programmes entirely in Malaysia. Before the start of the crisis, students undergoing joint foreign degree courses in local private educational institutions were to spend the last one or two years of their studies in foreign universities, which award the degrees. Now the students need not undertake foreign residency; they can thus save on higher fees and living expenses. The capacity for the intake of students in local public universities has also been increased by expediting the construction of facilities in two new universities. Efforts have also been channelled to widen opportunities for training in skills for women. The objective of this measure is to improve the opportunity for women to earn a better income and M\$50 million (\$13 million) has been earmarked for this purpose in 1999.

With respect to health services, the 1999 budget allocation has been increased by 29 per cent from that in 1998 to meet the heavier burden faced by public hospitals and clinics. Part of this amount is to increase the number of medical personnel. Allocation in the 1999 budget for development of agricultural infrastructure, rural roads and programmes for training on the use of new technology is being maintained and this will benefit the rural poor. It is estimated that the budgetary allocation for poverty eradication programmes will benefit 41,300 households. School textbook and food supplement schemes will receive \$150 million.

Republic of Korea

The Government of the Republic of Korea has responded to the sharp increase in unemployment with a comprehensive unemployment benefits package.³⁹ The package includes an expanded unemployment insurance system, a subsidized loan programme for the unemployed, and venture businesses, active labour market policies and public works programmes. Among these, the expansion of unemployment insurance and public works programmes appear to have the strongest potential for providing the people, affected by the crisis with direct and immediate assistance.

Unemployment insurance was expanded, from firms with more than 30 employees to those with more than 10 employees in January 1998, and then to firms with more than 5 employees in March 1998. The government was further considering extending unemployment insurance to all employees, including firms with fewer than 5 employees and with temporary or part-time workers in 1999. Minimum benefits were raised as well, to a level of 70 per cent of minimum wages. In addition, a longer duration for receiving benefits was to be allowed under special circumstances. Approximately 25 per cent of those who became recently unemployed were estimated to be eligible for payments in 1998. The full impact of the expansion was expected to be felt in 1999.

³⁹ Hyungpyo Moon, "Growth with equity: experience of the Republic of Korea", Seoul, Korea Development Institute, October 1998, pp. 48-49.

The present unemployment insurance is likely primarily to cover workers laid off from larger firms. The major portion of the unemployed from small bankrupt firms will not be eligible immediately as the extended unemployment insurance system will take some time to be effective. To extend benefits to those groups unable to receive unemployment assistance, the government deployed a new, subsidized loan programme. In addition, public works programmes received higher priority. Up to the third quarter of 1998, about one trillion won (approximately \$900 million) was allocated for public works programmes. This amount is likely to increase in the near future. Amidst allegations that women have been discriminated against and retrenched unfairly, the government has established a special "window for reporting discriminatory dismissal of women" and introduced a system of publicly identifying firms that do not act to correct gender discrimination.

Thailand

One of the largest programmes for providing the poor with comprehensive assistance in the form of creation of employment, provision of training and access to improved health services during the crisis, as well as building long-term social capital, has been launched in Thailand. The ambitious programme entitled the "social investment project", with a total cost of \$462.2 million, is being implemented by the government. Financial resources for the project have come from the World Bank, with assistance of \$300 million, and from other donor agencies, including UNDP.

The project is divided into two parts. The first part, with an allocation of around \$312 million, envisages projects for strengthening activities in irrigation, public health, labour and social welfare, tourism, industry, and activities under the Ministry of the Interior and the Bangkok Metropolitan Administration. The immediate emphasis is on employment creation and improved access of the population to certain social services such as health.

The second part of the project consists of two components: a regional urban development fund and a social investment fund. The regional urban development fund will be set up with about \$30 million and the money will be disbursed in the form

of loans to municipalities all over the country. The object of the fund is to help to strengthen the physical infrastructure in urban centres. Similar to the state projects, the immediate contribution of the activities to the alleviation of the economic crisis will be the creation of new employment opportunities for the unemployed.

The other component namely, the social investment fund, has gained the most attention. About \$120 million allocated to this component is to be used to develop community-based projects to be initiated, planned and implemented by local people. The fund is thus expected to benefit the people directly. The project menu of the social investment fund, managed by the Social Fund Office under the responsibility of the Government Savings Bank, has four categories: projects which support training and education for career development, create social welfare and community security, encourage protection of the environment and natural resources, as well as culture, and develop communities. Money is available as grants to projects which emphasize the needs of the poor, including the jobless who have returned to their villages. Those eligible for grants are active community organizations, community networks and local administrations that work with community groups and local institutions. Project proposals initiated by the above groups are to be screened by the Social Fund Office.

The expected short-term impact of the social investment fund and the other components of the social investment project are impressive: the creation of 500,000 man months of employment over two and a half years, support of 300,000 three-month training programmes and improved health coverage of 1.5 million people. Ten thousand disadvantaged women and disabled persons in 40 provinces are expected to benefit from vocational training programmes. Some 2,800 youths between 15 and 16 years of age are to receive stipends and skill development training in the use of new technologies. A large number (105,000) of lower secondary school graduates will also receive similar assistance to improve their future employment prospects.

The innovative feature of the project is the fusion of short-term needs during the crisis with the long-term requirements of the country. While generation of employment, provision of improved health services and vocational training would be very

beneficial to the people immediately affected by the crisis, a number of project activities are also expected to strengthen government agencies, local-level institutions and local-level environmental management skills, which will lead to long-term social capital formation. Strengthening of local-level institutions is expected to contribute strongly to the efforts being made to decentralize the development activities of the country. The project could thus potentially turn the crisis into future opportunities.

However, there have been a number of criticisms of the project. Among these, two are important. The first was whether borrowing money for the project from foreign sources at this juncture was prudent or not. This was especially relevant as the relationship between the activities of the project and the future repayment capacity of the country was not obvious. The second one was procedural. Especially in the case of the social investment fund, community-level organizations and NGOs that were responsible for initiating project proposals found the procedures complicated and the guidelines difficult. It has been reported that, in late September 1998, a number of representatives of various community organizations in Bangkok gathered in a job fair and complained that the procedures for accessing the funds were confusing and complicated and they therefore had failed to apply. It was further reported that most communities and NGOs knew very little about the details of the social investment fund. This would cause delay in the utilization of funds and in providing the people affected by the crisis with much-needed relief.

In addition to the social investment fund, the Government of Thailand was able to mobilize substantial finances in the form of a social sector programme loan from ADB. The \$500 million loan would enable the government to implement activities in three social areas: labour market and social welfare, education and health.⁴⁰ On the labour market, the policy priorities would be establishing centres for assistance to laid-off workers, strengthening the social security coverage of the unemployed, and providing private enterprises with more tax incentives for investment in the training of workers.

To facilitate the return of students to the education system, a targeted fee waiver programme has been introduced. Under the programme the Bangkok Metropolitan Administration is waiving fees for students whose parents have been laid off. The students would also be eligible to receive free lunches, textbooks and uniforms. The authority has appealed to eligible parents to make use of the facility.

The government was already implementing a programme of providing education loans for students. Loans are interest-free during the period of schooling and students are required to pay back the amount of the loan after graduation. During the years of economic boom, loan disbursement under the programme was low. Since the beginning of the economic crisis, the programme has become very popular, and the educational fund of the government was quickly depleted. It was expected that the social sector loan from ADB would be used to provide funding for the programme.⁴¹ In addition to increasing the budget for the student loan programme, the ADB loan would be used to improve the quality of education and participation of the private sector in providing education and training in rural areas.

POLICY DIRECTIONS FOR THE FUTURE

Governments face an inescapable responsibility to minimize the exposure of their societies to a crisis and provide social protection in the event that one occurs. This is a political necessity, a moral imperative, and is also justified on economic grounds. As has been amply demonstrated in the preceding pages, a severe economic crisis can have a debilitating impact on human resources, with serious consequences for future growth potential. This does not mean that governments should or can bear this responsibility entirely on their own. Dealing with the social impact of an economic crisis requires concerted action by many agents in societies, including the private sector, civil society organizations, religious and charitable institutions, families and

⁴⁰ ILO, *Social Impact*, p. 39.

⁴¹ Tambunlertchai, "Social impact in Thailand", p. 25.

individuals, but governments have a particularly important role to play for several reasons. They alone can provide the framework for macroeconomic management that minimizes the vulnerabilities of an economy to a major shock or to mitigate the impact of a shock. Many aspects of social development cannot be effectively addressed by the private sector because of various kinds of externalities and market failures. The private sector faces severe financial stress in the event of a crisis and may sharply reduce even the services that it might have been offering in the past. In many instances, government action may be needed to create a congenial atmosphere for the private sector to play a role that it may be willing to play in addressing the social repercussions of a crisis. Accordingly, this section seeks to identify a number of areas for attention by policy makers in the future.

Augmenting and protecting the social sector budget

The analysis in this chapter has shown that a rapid increase in unemployment, reduced wages and hours of work, loss of purchasing power because of a rise in prices, and so on create conditions in which there is a tremendous increase in demand on social services provided by the government. At the same time, governments face severe resource constraints because of falling revenue, the need to maintain certain mandated expenditure such as interest payments, and expenditure requirements for other unavoidable purposes such as financial sector restructuring. Yet, in the light of the crucial role of the government noted above, efforts have to be made to ensure that social sector allocations are protected or even augmented. Some of the options that can be considered to accomplish this are expenditure cuts in such areas as defence or large projects with long gestation periods, a resort to deficit financing subject to the limits of prudent macroeconomic management, and external donor financing.

Governments may also wish to establish a formal "social fund" in order to extend minimum income support to those who slide into extreme poverty. The fund could be created through regular, annual contributions from the government budget and should be drawn upon only in circumstances of

extreme urgency. The periods of prosperity would enable the government to build up this fund, which would provide it with some resources at its disposal to meet immediate needs in a dire situation before alternative sources were identified and mobilized.

The major objectives of budgetary expenditure on social services in the immediate aftermath of a crisis should be protecting the incomes of the poor and ensuring that their access to food and basic social services is not jeopardized. The instruments to accomplish these objectives could include, the creation of employment through public works; cash transfer; free or subsidized provision of certain essential goods and services, particularly food; and extended credit facilities.

The measures to augment or protect budgetary resources for social services should be complemented by efforts to enhance efficiency in the delivery of services. It has been estimated that in many developing countries the cost of a \$1 gain by the poor in a typical welfare programme is \$2.50. This indicates that there is significant scope for enhancing the productivity of welfare programmes.

Prioritization

Whatever the level of resources available, it is important to define priorities in order to derive maximum positive impact. Two dimensions of priority-setting need attention. The first has to do with the identification of vulnerable groups within a broad category of social services. For example, in the area of health, pregnant women, children and the elderly may be the most vulnerable groups. In the area of education, children of parents who lose jobs as a result of crisis-induced retrenchment may be the most susceptible to drop out of the educational system as their families may no longer be able to pay school expenses or the children may be forced to pick up odd jobs in the informal sector to supplement the family income. In the case of unemployment, women are likely to become easy victims because of the perceived economic interests of the employers or cultural bias against women. At any rate, what is important is that target groups need to be identified within each area and programmes designed and implemented in such a manner that benefits reach these groups without much leakage

along the way. The second dimension of priority-setting has to do with the kind of assistance to be maintained or strengthened. For example, in the area of health, the protection of expenditure to prevent child malnutrition may receive a higher priority. In the area of education, prevention of drop-outs may be the most urgent priority.

Institution-building

The design and implementation of priority programmes to respond to the social consequences of a major economic downturn require an effective institutional infrastructure. Several aspects of institution-building merit consideration. First, various government agencies and local-level institutions must develop the capacity to formulate appropriately targeted projects as integral parts of a national programme. Second, the implementation of any comprehensive programme requires concerted and coordinated action by many actors. These include the various ministries, departments and agencies of the central government, provincial and local government organizations and NGOs. Institution-building should encompass clear delineation of responsibilities among various actors. In addition, there should be an important focus on the creation and strengthening of modalities for coordination and cooperation among agencies of different layers of government and between them and various local-level stakeholders, including NGOs and beneficiaries. Governments also need to consider how to engage NGOs and other civil society organizations as true partners in the design and delivery of social programmes. In particular, regulatory bottlenecks such as complex registration requirements should be removed, and positive incentives given such as providing tax-exempt status subject to adequate safeguards to prevent abuse.

Strengthening the information base

The crisis has demonstrated weaknesses in the information system to be able to identify the target groups and to monitor the impact of programmes designed for their benefit. It is generally true that women have disproportionately lost more jobs than men. They may also have been subjected

to discriminatory treatment in terms of severance pay and other compensations. And yet disaggregated labour market information by gender is rarely available. Similarly, in the area of education, the family profiles of school drop-outs would be a vital piece of information in designing a programme for securing the re-entry of school-leavers into the educational system. In some cases, as explained below, the response to the crisis has been significantly influenced by the perception that there would be large-scale reverse migration from the cities to the villages, while others have raised doubts about it. These are but some examples of information gaps revealed by the present crisis. The system of collecting and processing information needs to be developed, including through strengthening of national statistical offices, so as to be able to meet these and other gaps in information needed for designing cost-effective programmes, as well as monitoring and evaluating their impact.

Developing the urban informal sector

Many programmes have focused on community-level activities in rural areas. This was based on the argument that, during the boom period, there was a migration of people from villages to cities on a large scale to join the rapidly increasing job market in urban areas and hence a significant reverse migration would occur during economic contraction. Rural programmes were therefore needed to accommodate the returnees. However, the extent of a permanent reverse migration has been questioned. It is argued that many of Asia's new jobless from the formal sector no longer had strong village ties and do not want to go back to the village to make a living.⁴² Such a situation could raise doubts about the effectiveness of some of the present programmes in providing the groups most affected by the crisis with assistance and would call for strengthening the urban informal sector, which possibly absorbed a substantial portion of unemployed workers from the formal sector.

⁴² Michael Vatikiotis, "No safety net", *Far Eastern Economic Review*, 8 October 1998.

A number of measures can be adopted to reinforce the role of the urban informal sector as a cushion. Many of the retrenched workers possess some skills, but these may not be entirely appropriate for informal sector activities. Some retraining would be needed. In a situation of generalized credit crunch in the wake of a financial crisis, informal enterprises whose access to credit is highly constrained under normal circumstances would find it harder to get credit. Special credit windows might be needed to address this problem. Standards laid down on cleanliness, hygiene, registration, book-keeping, etc. are often taken advantage of by official enforcement agencies to harass existing or potential informal sector enterprises and workers and these are discriminated against in respect of access to infrastructure facilities such as electricity or water. These problems should be attended to.⁴³

Unemployment insurance

The most important factor aggravating the social impact of an economic crisis is clearly the loss of employment. As noted before, most countries in the region hardly had any unemployment insurance coverage, with the exception of the Republic of Korea. The introduction of a system of unemployment insurance can be a very efficient way of establishing institutionalized safety nets for the unemployed. The initial experience of the Republic of Korea with a partial unemployment insurance scheme and its subsequent expansion, which has been a major government response to the present crisis, amply demonstrates the feasibility and desirability of this modality. Feasibility studies undertaken in other countries have shown that a self-financing unemployment insurance scheme can be implemented on the basis of a modest payroll tax (1 per cent) paid by workers and employers.⁴⁴ There is no

⁴³ For details of these and other measures for developing the urban informal sector, see United Nations, *Role of the Informal Service Sector in Urban Poverty Alleviation* (ST/ESCAP/1706) (New York, United Nations, 1996), pp. 244-245.

⁴⁴ Eddy Lee, *The Asian Financial Crisis: The Challenge for Social Policy* (Geneva, International Labour Office, 1998).

cost to the government and at this low level of payroll tax any negative impact of labour cost on investment and economic efficiency would be minimal.

Reshaping development strategies

The above suggestions are mostly in the nature of mitigating adverse social impact in the event of a crisis. While maintaining preparedness in these respects, efforts should be made to minimize the vulnerability to major shocks. From this perspective, the crisis in East and South-East Asia offers an opportunity to re-evaluate certain aspects of development strategies and domestic policies. It should be noted that there is no unanimity of views on what should have been done to avoid the calamity that befell the East and South-East Asian economies. The issues involved are complex and wide-ranging, encompassing macro aspects such as monetary, fiscal and exchange rate policies, as well as micro aspects such as management of the financial sector, corporate governance and the relative importance of large conglomerates versus small and medium-sized enterprises. The scope of this chapter does not permit any in-depth treatment of all relevant issues.⁴⁵ However, a few which have become particularly prominent in the wake of the current crisis are noted below.

One of the issues that has come to the fore is the speed and the sequencing of capital account liberalization. One concern in this context is the state of preparedness needed to benefit from open capital accounts while minimizing potentially disruptive consequences. A related issue is the question of reliance on external resources to finance a high level of investment and growth. There is no question that a major part of the explanation for the crisis lay in dependence on easily reversible, short-term external capital to finance long-term investment. The crisis has also shown the immense importance of paying close attention to the quality

⁴⁵ Some of these issues were discussed in *Survey 1998*, pp. 96-103.

and composition of growth, not only to its rate. The high rates of growth, particularly in the years immediately prior to the crisis, were the result of unsustainable bubbles in the stock and property markets financed by the upsurge in short-term capital inflows. The crisis occurred against the backdrop of considerable weaknesses in financial sector management and corporate governance. There have been widespread allegations of greed,

“crony capitalism”, improper exercise of bureaucratic and political power and erosion of values such as thrift and self-reliance. In turn, these have given rise to demands for decentralization, transparency, accountability and political restructuring. It is important for policy makers to take note of these diverse issues, evaluate their significance for economic and social stability and adopt remedial measures suitable for each country.