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A NOTE ON UNEMPLOYMENT IN THE WAKE OF THE ASIAN ECONOMIC CRISIS AND SOME RESPONSES¹

Preamble

The second half of 1997 saw the emergence of a severe economic crisis in a number of East and South-East Asian countries. Over a short period of time, some of the fastest-growing economies in the world came to a grinding halt. Output fell, unemployment increased, GDP contracted and the incidence of poverty multiplied.

The scale of the impact was enormous and the misery suffered by the people was overwhelming. Countries in East and South-East Asia in the pre-crisis years benefited from a situation where high economic growth, high employment levels and high social development reinforced each other. The designing of safety nets to provide a cushion to persons affected by sudden economic downturns did not feature prominently on the policy agenda. Suddenly hit by the crisis, countries had to design short-term programmes and policies quickly to arrest a rapidly deteriorating situation characterized by rising unemployment and loss of income (ESCAP 1998). In addition, efforts were undertaken to rejuvenate output and economic growth so as to increase the demand for labour in the long term.

In the short run, Governments depended on the programmes and policies that were already in existence and expanded these to benefit affected persons so as to mitigate the consequences of the crisis. In the medium term, to enhance output and economic growth and to address structural issues, Governments implemented various fiscal stimulus measures, took steps to improve labour productivity and export competitiveness and adopted policies and programmes to strengthen the financial sector. To finance the implementation of both sets of measures there was a drastic change in the macroeconomic stance of the affected countries in that Governments known to be very conservative on the fiscal front allowed budgets previously in surplus to move into deficit. In the Republic of Korea, the ratio of the Government's budget balance to GDP became -4.2 in 1998 from the 2.2 per cent realized during the period 1994-1996. The equivalent ratios in Indonesia, Thailand and Malaysia were -1.7, -2.8 and -1.8 per cent respectively in 1998, compared with 1.4, 2.2 and 1.2 per cent during 1994-1996.

Safety nets to protect the unemployed were not on the policy agenda during the years of rapid growth

The need for new programmes and policies to deal with the crisis led to drastic changes in the fiscal stance in affected countries

¹ Prepared under the supervision of the Development Policy Analysis Section, Development Research and Policy Analysis Division, ESCAP.

The aim of the present note is very modest. An attempt is made to discuss briefly the major short-term responses with country examples. Wherever possible, comments are made on their impact. Based on this, a perspective on a possible strategy for coping with unemployment and the associated effects is given at the end.

Overview

The crisis exposed the weaknesses of existing labour market policies and social programmes

The Asian economic crisis had an adverse impact on labour markets in the affected countries. The crisis also exposed the limited capability of national social safety nets and labour market policies to accommodate effectively shifts in the employment status of those directly affected. Labour market flexibility, which allowed real wages as well as hours of work to fall, helped in checking the aggravation in open unemployment to some extent. However, underemployment increased, as did the contribution of the service sector (of which a large part is informal) to the provision of employment. Increased unemployment and lower real wages led to higher poverty levels in the countries affected by the crisis. Although the existing government machinery in these countries was not fully equipped to deal with a crisis on such a massive scale, countries expanded and implemented several existing institutions and programmes to mitigate the negative impact of the crisis on the labour market. These included public employment information services, training and retraining programmes, public works programmes, unemployment benefits, microcredit schemes and credit programmes for small and medium-sized enterprises (SMEs). All these programmes were expected to benefit the unemployed, either directly or through the preservation of jobs. In addition to these, certain labour market policies were adopted to deal with the unemployment situation at least partially.

The impact of programmes to mitigate the adverse impact of the crisis on the labour market varied across countries

The success of the programmes in terms of their impact varied across countries. Public employment information services expanded in all the countries to assist the unemployed in finding jobs. However, only Malaysia and the Republic of Korea achieved some notable success through this mechanism. Training and retraining programmes were also started for the displaced and unemployed workers in all countries but these were very small compared with the extent of the need in each country. Only in the Republic of Korea did these programmes have a wide outreach.

Recent research by ESCAP evaluated the performance and impact of public works programmes, microcredit programmes, unemployment insurance schemes and SME credit programmes (ESCAP 2002b). The study, based on small-scale surveys conducted of beneficiaries of the programmes in Indonesia, the Republic of Korea and Thailand, concluded that persons benefiting from public works programmes, especially those with low levels of education, had experienced an income decline during the crisis. However, the public works involved hard manual labour, which limited the ability of women and the elderly to participate. In contrast, microcredit programmes were more successful in reaching women. Neither of the two types of programmes was found to have benefited (in any significant manner) persons who had lost their jobs in the formal sector in either Indonesia or Thailand.

The existing unemployment insurance scheme in the Republic of Korea was expanded in the wake of crisis and assisted a large number of people covered by it. Interestingly, incomes generated under most of these programmes (public works, microcredit and unemployment insurance) were not sufficient to cover the basic needs of beneficiaries. As expected, most of the sampled firms that had received credit on easy terms under the SME credit programmes had suffered a loss of business during the economic crisis.

Capacity for designing and implementing employment generation programmes on a large scale was lacking in many of the crisis-hit countries partly because Governments had relied upon rapid economic growth in the pre-crisis period to provide employment and associated social protection. Governments were therefore unprepared to deal with the social consequences of the sudden eruption of the economic crisis. Many programmes were hastily designed and their implementation rushed, leading to a lack of coordination among the various government departments responsible. The importance of developing the capacity, at both the national and decentralized levels, to design and implement similar programmes in future is clear. Moreover, appropriate long-term social safety nets or protection mechanisms for use during normal times (to alleviate structural poverty) as well as during economic downturns need to be developed.

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Trends in unemployment and other macroeconomic aggregates during the crisis

Of the countries affected by the economic crisis, Indonesia, the Republic of Korea and Thailand were the hardest hit, followed by Malaysia and the Philippines. Most of these countries were growing rapidly before the crisis broke out in 1997. As a result of the crisis, GDP declined by 13 per cent in Indonesia, 10.2 per cent in Thailand, 7.4 per cent in Malaysia, 6.7 per cent in the Republic of Korea and 0.6 per cent in the Philippines in 1998 compared with the previous year. The decline bottomed out the following year and positive growth rates subsequently resumed but the strength of the recovery varied widely among these countries (ADB 2002).²

Accompanying the sharp falls in GDP in 1998 was a change in the sectoral composition of output. The share of agriculture in GDP increased in Indonesia, Malaysia and Thailand, while the service sector declined in importance. The construction industry was the most seriously affected in all five countries and as a result its share in output fell. Agriculture also absorbed more of the labour force and its share in total employment increased in most of the countries, at the expense of manufacturing and construction. The largest increase occurred in Indonesia, where the sector's share of the total employed labour force rose from 41 per cent in 1997 to 45 per cent in 1998. Interestingly, employment in the service sector increased in most countries, despite the fact that its share in GDP decreased in some of them. This suggests that many persons losing jobs elsewhere in the economy sought

*Together with the
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² Most of the other data used in this section are also drawn from this source.

employment in this sector, increasing the competition for available jobs and putting downward pressure on wage rates. One would expect an expansion of the informal sector under these circumstances, especially in terms of its contribution to employment.

Unemployment rose from historically low rates

Prior to the economic crisis, all countries enjoyed low unemployment rates with the exception of the Philippines (see table below). As economic activity contracted sharply, the unemployment rate started to rise. For example, in Thailand the unemployment rate was around 1 per cent in 1996. It rose to 3.4 per cent in 1998 (an increase of over 200 per cent) and 0.8 million jobs were lost in the wake of crisis. Similarly, in the Republic of Korea, the unemployment rate rose from the comparatively low figure of 2 per cent in 1996 to 6.8 per cent in 1998, adding around 1 million to the pool of the unemployed. Unemployment also increased in the other three countries but less sharply. Although some countries witnessed a reduction in unemployment rates in 2000, these rates continue to remain higher than those prevailing before the crisis.

Table. Unemployment rates, 1990-2001

(Percentage)

	1995	1996	1997	1998	1999	2000	2001
Indonesia	7.2	4.9	4.7	5.5	6.4	6.1	8.1
Malaysia	3.1	2.5	2.4	3.2	3.4	3.1	3.6
Philippines	8.4	7.4	7.9	9.6	9.4	10.1	9.8
Republic of Korea	2.0	2.0	2.6	6.8	6.3	4.1	3.7
Thailand ^a	1.1	1.1	0.9	3.4	3.0	2.4	2.6

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2002* (Manila, ADB, 2002).

^a The World Bank has estimated that the unemployment rate would be much higher if transient workers with occasional jobs were treated as unemployed (Economist Intelligence Unit 1999).

Another adverse impact of the crisis was that underemployment increased. Many of those who could not retain full-time jobs were able to work for fewer hours. For example, in Thailand, underemployment rose from 1.7 per cent in 1977 to 2.8 per cent in 1998 and further to 3.6 per cent in 1999 (World Bank 2000).

The fall in real wages had the most acute and widespread impact

The most acute and widespread impact of the Asian financial crisis on the labour market was the fall in real wages as inflation quickly eroded their nominal value. For example, while nominal wages continued to rise in Indonesia, real wages fell by 30 per cent between 1997 and 1998. In Thailand, the fall in real wages accelerated from about 1 per cent in 1997 to around 7 per cent in 1998. Real wages decreased by approximately 10 per cent in the Republic of Korea in 1998 but the decrease was more contained in both

Malaysia and the Philippines. Labour markets displayed a great deal of flexibility in the sense that even nominal wages in manufacturing in the Republic of Korea and Thailand fell in the wake of crisis, which helped to limit the incidence of unemployment (ILO 2002a).

Rising unemployment and underemployment coupled with high inflation and falling real wages quickly transformed the economic crisis into a social crisis. The incidence of poverty increased in all the countries, with Indonesia being the hardest hit: 18.2 per cent of the population were classified as being poor in 1999 as compared with 11.3 per cent in 1996. In Thailand, the incidence of poverty rose from 11.4 per cent in 1996 to 13.0 per cent in 1998 and again to 15.9 per cent in 1999. In the Republic of Korea, the incidence of poverty among urban workers' households increased from 3 per cent in the fourth quarter of 1997 to 7.5 per cent in the third quarter of 1998 (ESCAP 2002a).

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Employment-related programmes and measures

The crisis-affected countries implemented various programmes and measures to check the spread of unemployment and minimize hardship. These included public employment information services, training programmes, public works programmes, unemployment insurance schemes, microcredit and SME credit programmes, as well as other labour market policies.

Employment information services were in operation in all countries well before the Asian crisis as part of the normal battery of policies and programmes to create jobs, place job-seekers and offer employment counselling and guidance services. In some countries, for example, the Republic of Korea, the public employment information service agency is also responsible for the registration and administration of unemployment insurance benefits. However, the crisis brought into the limelight the need to use these instruments to facilitate re-employment of thousands of laid-off workers. As a result, public employment services have been strengthened considerably in all crisis-affected countries.

*Employment
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In the Republic of Korea, the Government expanded the number of public employment services agencies from 52 in 1997 to 134 in 1999, leading to a considerable increase in the number of people finding jobs through them. A nationwide network of job information centres was also established, providing job-seekers with information and services on vacancies and unemployment benefits. The Government also relaxed the regulation for private placement agencies, which resulted in an increase of the number of private agencies. In Malaysia, public employment agencies were reported to have successfully found jobs for most of the workers affected by the massive job retrenchment due to the Asian crisis (Islam, Krishnamurty and Puri 2001).

The Internet has become a powerful and inexpensive tool for public employment information agencies

In most countries, public employment information services have been strengthened through the use of modern information and communication technology. The Internet has become a new, powerful and cheap tool for posting vacancies and placing job-seekers. An example is the Philippine PHIL-Jobnet, an automated job and application matching system that aims to fast-track job search for seekers and employers. Public workstations have also been installed in 43 regional offices in the Philippines for clients without direct access to the Internet. In the Republic of Korea, a similar system called Work-Net was also established.

In Thailand, a programme dubbed “The Candlelight Measure” under the Unemployment Alleviation Action Plan was adopted in December 1998 to help unemployed graduates to find jobs through a massive employment information dissemination campaign and the promotion of postgraduate studies. About 25,000 Thai graduates benefited from the programme. The crisis also led to the establishment of employment service centres to coordinate public and private employment services better. Furthermore, Thailand’s labour force survey is now conducted on a monthly basis rather than three times a year as before the crisis.

The Government of Indonesia also recognized the need to upgrade its public employment information services to respond better to the crisis. A country report presented at a recent ILO meeting concluded that Indonesia’s 174 district public employment services failed to produce much-needed labour market information during the crisis (ILO 2002b). This failure was attributed to lack of resources and inefficiency in obtaining and disseminating vacancy information. Increased funding and human resources development were sought.

The importance of strengthening public employment information services in the wake of the crisis was raised repeatedly at regional meetings organized by ILO between 1999 and 2002. There is now a consensus in favour of comprehensive public employment services to enable all economic agents in the labour market, i.e., employers, employees, job-seekers and Governments, to be better informed of the current employment situation and likely changes, so as to be able to respond quickly. This would make a closer match between labour supply and demand possible.

Public works programmes that had been phased out in some countries were revived

The main objectives of public works programmes were to generate wage employment for the unemployed and create economic infrastructure. For example, the activities undertaken in Indonesia during the crisis included construction or repair of village roads, construction of public markets and small shops, cultivation of useful plants on unutilized government land and construction of fish ponds for culturing marine fish. It is interesting to note that public works programmes were phased out in the country in the early 1990s as the labour market tightened. Their revival in 1997 in the wake of the crisis and further expansion in 1998 led to the coverage of large parts of the country by these programmes. In the Republic of Korea, public works programmes generated 440,000 jobs in 1998 and nearly 1.2 million jobs in 1999, providing work for around 70 per cent of the country’s unemployed

in 1999 (Islam, Krishnamurty and Puri 2001). The Government of Thailand also launched similar programmes, mainly utilizing external funds.

The crisis exposed a number of weaknesses in the public training and educational systems in many countries in the region. Foremost was the lack of training programmes for displaced or retrenched workers, which necessitated the setting-up of special measures and programmes to address this issue. The Government of Malaysia, for example, established a Human Resource Development Fund, a training grant for workers and those who were retrenched in order for them to obtain new skills and enhance their employability. Training grants were also given to unemployed graduates and school-leavers. In the Philippines, the Government provided training for workers affected by the crisis in the informal sector and rural areas in order to improve their income-earning potential and chances of being self-employed. Indonesia, the Republic of Korea and Thailand also implemented similar programmes for labour in response to the crisis.

In many countries, training programmes had limited success

In most countries, training programmes achieved limited success because the number of workers trained was very small in relation to the numbers displaced. The training programmes were more successful in the Republic of Korea, where some 362,941 persons, representing approximately a quarter of the unemployed in 1998, benefited from the training programmes. This success was attributed to an increased budget and the provision of unemployment benefits to the trainees. It should be noted that in times of an economic crisis survival becomes the priority of unemployed workers rather than enhancing skills through training programmes. Therefore, the provision of a subsistence allowance to displaced workers could serve to attract them to training and retraining programmes.

In all the countries, there has been an increase in the number of private agencies providing training for unemployed and displaced workers. Private agencies provided paid services to train workers seeking jobs locally and abroad. Better coordination between public and private training institutes could help in meeting the needs of workers. Moreover, it is important that public training programmes be demand-driven and formulated in consultation with the private sector.

Private agencies are playing an increasingly important role in training

Attention to training programmes in the wake of the crisis has revealed a number of important lessons. This includes the realization that the benefits of globalization can accrue only if an economy has a skilled labour force that can adapt to the changing demands of the global marketplace.

Microcredit programmes provide small loans to beneficiaries for income-generating activities. The microcredit programmes in Indonesia provided soft credit at low interest rates, through a simple and quick procedure, to individuals organized into groups. The Government of Indonesia also required commercial banks to set aside a percentage of their loans for small borrowers. In Thailand such loans were provided either to groups or to individuals. To qualify for a loan, a project proposal with clear objectives was required, and proposals were to be reviewed and selected by relevant

Credit programmes generated employment

committees. In the Republic of Korea, credit was provided to unemployed professionals for self-employment and in another such programme training and start-up loans for small businesses were combined.

In the wake of the economic crisis, financing for SMEs from commercial banks and other financial institutions dried up, threatening their survival and adding to the risk of rising unemployment. Special loan schemes for SMEs were introduced in some countries, particularly the Republic of Korea, to help in job protection. In 1998, Malaysia launched a fund for small-scale entrepreneurs.

The unemployment insurance scheme expanded in the Republic of Korea

Among the countries directly affected by the crisis, only the Republic of Korea had an unemployment insurance system in place prior to the crisis. The scheme, which was launched by the Government in 1995, covered firms with more than 30 regular employees. In response to the economic crisis, the coverage was expanded to include firms with more than five regular employees. In October 1998, the coverage was expanded further to all workplaces, including firms with temporary workers. The programme covered 5.3 million workers (27 per cent of the employed labour force) by the end of 1998. Moreover, the minimum benefit was raised to 70 per cent of the minimum wage. In 1997, prior to the economic crisis, the number of beneficiaries was 15,000. By 1999, as a result of the economic crisis and the expansion in the coverage by the scheme, the number had risen to 441,000.

Labour market policies for dealing with unemployment were experimented with

During the crisis Governments adopted a number of additional policies and measures to protect existing jobs and create new ones. The provision of incentives for employers was an effective tool in maintaining existing jobs or minimizing lay-offs. These incentives took the form of subsidized credit, to improve liquidity and avoid bankruptcy, and wage subsidies. Such mechanisms have been employed to a significant extent in the Republic of Korea. Depending on the size of the firm, subsidies equivalent to between one half and two thirds of wages or allowances due to workers are paid for a maximum of six months. Other measures for protecting jobs were temporary shutdowns, reduction in working hours, training of redundant workers, giving paid or unpaid leave to workers, and dispatching or reassigning workers. In 1998, a large number (1,896) of firms received employment maintenance subsidies, covering a total of almost 800,000 workers. However, the scheme was rather costly and did not guarantee worker retention by firms.

The Government of Malaysia introduced retrenchment guidelines in August 1998, which forced companies to retain workers instead of resorting to retrenchment. These measures included retraining workers, cuts in pay, temporary lay-offs, voluntary separation schemes and the introduction of flexible working hours and part-time employment. From August to December 1998, some 759 employers resorted to pay cuts to save 22,719 workers from losing their jobs. The Government also proposed reducing workers' contributions to the Employment Provident Fund from 11 to 9 per cent. This proposal was strongly opposed by the trade unions, resulting in a compromise whereby the reduced contribution was made optional. The Government also implemented a cut in allowances given to civil servants

and in the contribution required of foreign workers to the Employment Provident Fund commencing 1 August 1998.

Thailand employed an action plan for unemployment relief. The following measures costing 61.4 billion baht (roughly US\$ 1.5 billion) were expected to generate about 1.5 million jobs: (a) provision of cheap consumer products; (b) maintenance of employment levels in the industrial sector through reduction in social security contributions and production costs, increase in liquidity and foreign investment, and promotion of exports; (c) stricter controls on illegal immigrant workers, preserving around 300,000 jobs for local workers; (d) strengthening exports of labour; and (e) promotion of a rural and agriculture-based economy to attract workers back to the rural areas.

A perspective on strategies for coping with unemployment during an economic crisis

Governments of affected countries instituted a variety of programmes and measures to cope with the unemployment situation during the Asian economic crisis. Not all countries have had equal success with these measures in mitigating unemployment, and measures effective in one country were not so in others. Institutions responsible for designing and implementing programmes were not developed to the same extent in all countries. The levels and strategies of development were also unequal and there were important structural differences, which had implications for the choice of policies and programmes. For example, an unemployment insurance system was available and usable in the Republic of Korea as the informal sector of that country is small in comparison with the others. Against this background, strategies for coping with unemployment in general, and during economic crises in particular, should be country-specific, based on a package of programmes and measures innovative enough to exploit the comparative advantages of local institutions based on the culture and traditions of each country. Community groups, self-help groups and family groupings could be part of these strategies. In addition, flexibility in the fiscal stance to permit the adoption of expansionary fiscal policies, for rejuvenating domestic demand and increasing growth in employment and GDP, and to finance social protection programmes during crisis periods could be an additional element in these strategies.

Strategies for coping with unemployment should be country-specific and based on a package of measures that make use of local institutions

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