

INTERNATIONAL LABOUR OFFICE

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

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Preface

The present report was written as the main technical paper for the ILO's High-Level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian Countries to be held in Bangkok from 22 to 24 April 1998.

The first chapter documents the severity of the crisis in terms of its macroeconomic impact and briefly discusses its nature and origins. Chapter 2 then traces the social impact of the crisis in the three most severely affected countries, namely Indonesia, the Republic of Korea and Thailand.

The third chapter reviews the policies and programmes that have been adopted so far to contain the social costs of the crisis. A particular concern was to identify needs that were still unmet and ways in which this gap can be narrowed in the short term.

The fourth chapter attempts to draw some lessons from the weaknesses in past policies and institutions that have been revealed by the crisis. It suggests priority areas for policy and institutional reform that need to be addressed immediately in order to overcome the current crisis, to reduce the risk of similar crises in the future, and to improve the capacity to cope with a large and unanticipated rise in unemployment and poverty.

Given the centrality of international labour standards and tripartism to the work of the ILO in general and the important role that standards can play in promoting a socially equitable and harmonious way out of the current crisis, section 4.2 of Chapter 4 is devoted to this topic.

A separate paper on ILO action presents proposals on how the ILO can assist its constituents in the light of the analysis of problems and possible solutions contained in the present report.

Most of the writing for the report was completed in mid-March 1998 and information used in it does not, therefore, go beyond what was available at that time.

4 April 1998

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1. Extent and origins of the crisis

South-East and East Asia have experienced an economic shock of unprecedented severity after decades of uninterrupted high growth. The enormity of the shock is captured by the fact that in the worst-affected countries, namely Thailand, Indonesia and the Republic of Korea, real GDP growth has turned abruptly from over 7 per cent per annum to zero or negative (see table 1.1). In Thailand growth fell from 6 per cent in 1996 to almost zero in 1997, with all the decline concentrated in the second half of that year, and is projected to fall by at least a further 2 per cent in 1998. In Indonesia the corresponding swing is from 8 per cent growth up to the third quarter of 1997 to a likely absolute decline of 5 per cent in 1998. Such shifts in GDP of the order of 10 per cent in one year in relation to what it would have been according to long-standing trends are very severe indeed. Apart from these countries, those that have been less affected so far, such as Malaysia, Singapore and the Philippines, will also experience significant deceleration of growth rates in 1998.

These aggregate income shifts reflect the impacts of precipitous currency devaluations and falls in equity prices which created economic upheaval in their wake (see figures 1.1 and 1.2). The huge devaluations of up to 80 per cent in the worst case (the Indonesian rupiah in January 1998) caused severe import compression in these open economies and pushed up inflation rates. The fall in equity and other asset prices further depressed demand through the negative wealth effect. The upshot of these developments was a sharp fall in consumption and average incomes.

Of greater concern than these general negative impacts were those with distributional consequences. Foremost among these was the impact on unemployment and poverty. The most severely affected countries have all experienced massive lay-offs and a sharp rise in unemployment as the currency and financial crises impacted on the real economy. In the absence of unemployment benefits and social assistance this inflicts severe economic hardship, way above that suggested by the fall in GDP, on job losers and new jobseekers. Together with falling real earnings of low-paid workers, this will reverse the impressive trends in poverty reduction achieved in these countries prior to the crisis. Over and above these primary causes there are other factors making for a rise in poverty, such as an increase in the prices of essential goods and tighter constraints on social expenditures.

The first manifestation of the crisis was the sharp devaluation of the Thai baht in July 1997 which then had surprisingly strong contagion effects on the currencies of Indonesia, Malaysia and the Philippines and, to a lesser extent, of Singapore. These devaluations were massive by any standard but especially in relation to estimates that the extent of overvaluation of these currencies, up to the onset of the crisis, was in the range of 10 to 18 per cent. This currency crisis triggered very large falls in stock markets in the region. By October the crisis had spread beyond the ASEAN countries to the Republic of Korea.

The primary factor behind this currency and stock market collapse was a massive reversal of foreign capital flows. It has been estimated that for Indonesia, the Republic of Korea, Thailand, Malaysia and the Philippines net private inflows dropped from US\$93 billion to ! 12 billion — a swing of 11 per cent of GDP between the end of 1996 and the end of 1997.

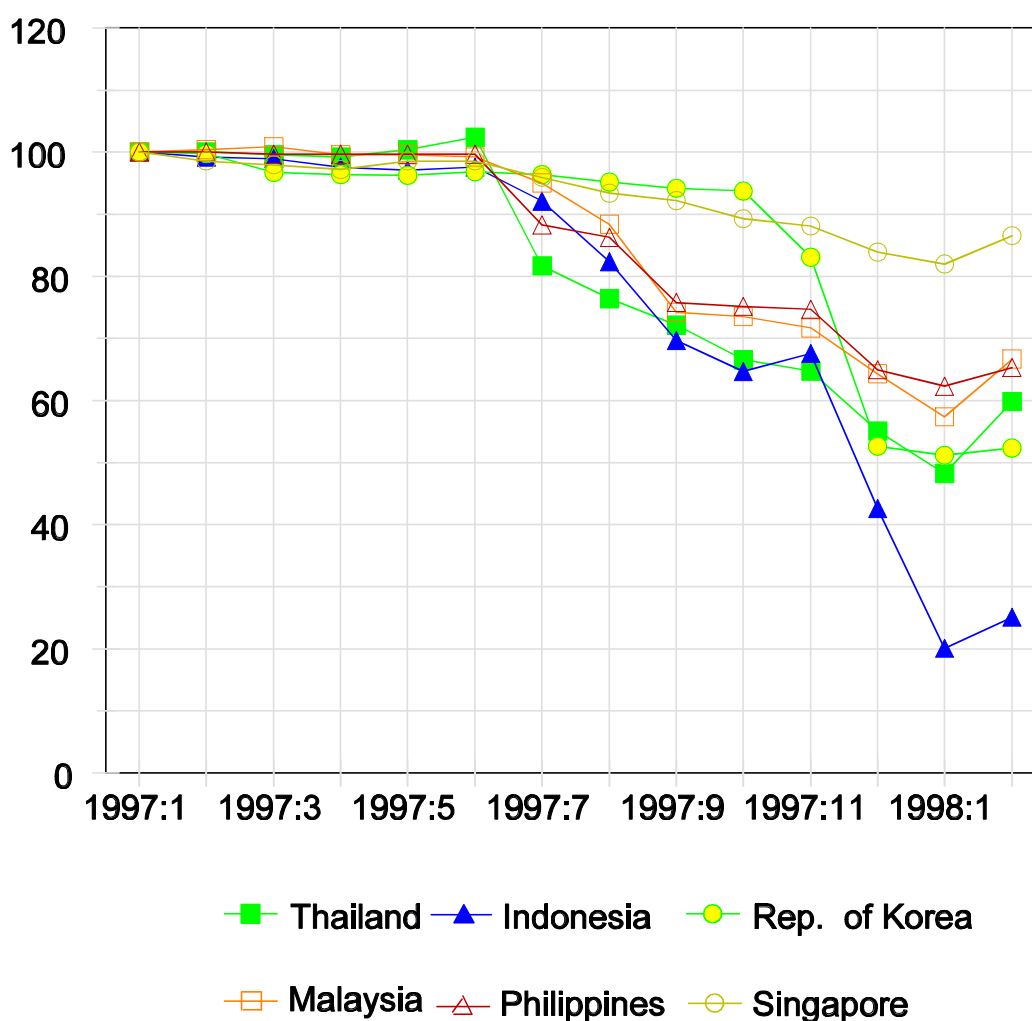
Table 1.1. Real GDP growth (%)

	1990	1991	1992	1993	1994	1995	1996	1997*			1998**			1999**		
								IMF	EIU	UBS	IMF	EIU	UBS	IMF	EIU	UBS
Thailand	11.6	8.1	8.2	8.5	8.9	8.7	6.4	0.0	0.4	0.0		! 3.0	! 3.0		2.5	1.0
Indonesia	9.0	8.9	7.2	7.3	7.5	8.2	8.0	5.0	4.1	4.7	2.0	2.7	! 5.0		5.2	0.0
Korea, Rep. of	9.5	9.1	5.1	5.8	8.6	8.9	7.1	5.9	6.0	5.6	1.0	! 1.2	2.0	4.1	4.6	4.4
Malaysia	9.6	8.6	7.8	8.3	9.2	9.5	8.6	7.3	7.0	7.9	2.5	3.4	4.4		5.2	5.0
Philippines	3.0	! 0.6	0.3	2.1	4.4	4.8	5.7	5.1	4.9	4.7	3.8	2.4	3.0		4.0	3.2
Viet Nam	4.9	6.0	8.6	8.1	8.8	9.5	9.3	7.5	9.0			6.2			6.9	
Singapore	9.0	7.3	6.2	10.4	10.5	8.8	7.0	7.6	7.6	7.6	4.0	2.5	5.7	6.6	4.1	5.0
Hong Kong, China	3.4	5.1	6.3	6.1	5.4	3.9	4.9	5.3	5.3	5.2	3.0	4.5	3.0	4.3	4.4	3.3
China	3.8	9.2	14.2	13.5	12.6	10.5	9.7	8.8	9.3	8.8	7.5	8.0	8.1		8.5	8.0
Japan	5.1	3.8	1.0	0.3	0.6	1.5	3.9	1.1	0.9		0.3			2.1		

*Estimate. ** Projection.

Sources: International Monetary Fund (IMF); World Economic Outlook, Mar. 1998; World Economic Outlook, Interim Assessment, Dec. 1997; The Economist Intelligence Unit (EIU); Country Risk Service, 1st quarter 1998 and 4th quarter 1997; and Union Bank of Switzerland (UBS); Asian Economics Weekly, 27 Feb.-5 Mar. 1998.

Figure 1.1. Exchange rates, index (US\$/local currency)



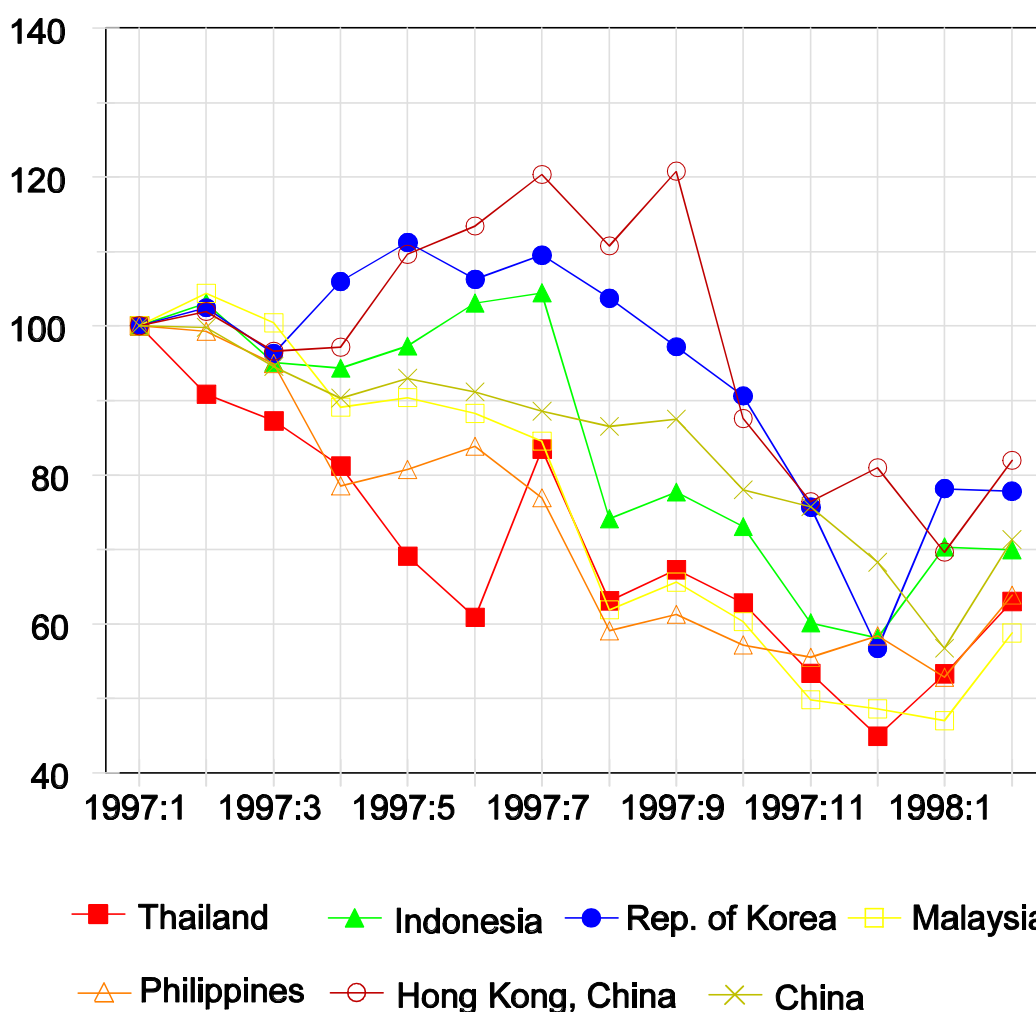
Source: *The Economist*, various issues.

This financial collapse soon began to impact on the real economy through two main channels. One was a sharply increased fragility in banking systems due to heavy exposure to unhedged short-term foreign loans (especially in Thailand), and to the further decapitalization effect of the fall in domestic asset prices. The other was a debt crisis in corporate sectors similarly exposed to foreign loans (especially in the Republic of Korea and Indonesia). These effects were particularly strong given the high debt-to-equity ratio in many large companies in the pre-crisis period and the high level of domestic bank lending to the private sector in these countries. Apart from this direct impact on foreign-indebted banks and companies, second-round effects soon spread to other parts of the real economy. The banking crisis, together with rising interest rates, resulted in a contraction of credit and a disruption of normal financial intermediation that put even otherwise viable firms under pressure. Difficulties in obtaining working capital and export letters of credit are two often-cited examples of these pernicious effects. Such disruptions in financial intermediation are believed to have prevented firms from reaping the full benefits of the sharp currency devaluations. This financial disruption effect was compounded by the knock-on effects on suppliers and other firms linked to the initial group of troubled companies.

The virulence of this impact on the real economy is seen in the abrupt swing in GDP growth rates described earlier and in the onset of absolute declines in output in Thailand and Indonesia.

The effects are by no means over, given that many firms are still teetering on the brink of illiquidity and insolvency and may not survive for long without the successful restoration of confidence in markets.

Figure 1.2. Stock market index, end period



Source: *The Economist*, various issues.

A striking feature of the present Asian crisis is the extent of market overreaction in terms of the degree to which the currencies have depreciated and asset prices have fallen. The exchange rates and market values of many companies are still at levels that cannot easily be justified by economic fundamentals. It is also clear that stabilisation is taking longer than in similar crises in the past and sentiment in international financial markets towards the most affected countries has not yet turned around. Moreover, as mentioned earlier, exports have not yet grown to the extent that was to have been expected in relation to the sharp devaluations.

It is important to note at this stage that there are significant differences among countries in South-East and East Asia both in terms of their pre-crisis situation and policies and in the extent to which they have been hit by the crisis.

First, in terms of the extent of the crisis, as already briefly mentioned, the three most affected countries have been Thailand, Indonesia and the Republic of Korea. *Malaysia* has also experienced a currency depreciation of 35 per cent and a fall in equity prices of 52 per cent, similar to that of Thailand, but the impact on the real economy has so far been less severe. Growth has slowed but is likely to remain positive in the range of 2 to 2.5 per cent in 1998. Reports on lay-offs still show this effect to be mild. A likely reason for this is that *Malaysia* had a significantly lower exposure to short-term foreign debt when the crisis broke. It has thus been less severely affected by the increased debt repayment and servicing burden caused by currency

depreciation. But it does have one of the highest ratios of domestic bank lending to the private sector and this, in the context of the sharp fall in equity prices, is a continuing source of vulnerability.

The *Philippines* also suffered a large currency depreciation and fall in share prices but its exposure to foreign short-term debt is even lower than that of Malaysia. The main impact of the financial crisis is being felt through the rise in interest rates that was introduced to shore up the peso. This will dampen investment and slow down growth to between 2.4 and 3.5 per cent according to government forecasts, with which major international financial houses concur. Moreover, given that its pre-crisis growth rates were lower than those of other Asian countries (5.4 per cent in 1996) the adjustment burden will be relatively mild.

Other Asian countries and areas, such as *China, Singapore, Viet Nam* and *Hong Kong, China*, have felt only relatively mild effects from the crisis. Hong Kong, China, successfully defended its currency peg against the US dollar when it came under speculative attack in October 1997 but it did suffer a 20 per cent drop in share prices, and property prices have also fallen. The higher interest rates and the adverse wealth effect will dampen growth in 1998; this is forecast by the Government to be 3.5 per cent, down from a level of 5 per cent in the two years immediately preceding the crisis. The declared policy is to maintain the currency peg with the US dollar since, given the growing weight of high value-added services and manufactures in its production structure, Hong Kong, China, is not unduly concerned about the effects of the devaluation of regional currencies on its competitiveness.

The story is similar in *Singapore*. In spite of its strong fundamentals (huge foreign exchange and fiscal reserves, and a solid financial sector) Singapore was not entirely spared the contagion effects of the Asian crisis. Its currency depreciated by a moderate 15 per cent and the stock market fell by 13 per cent. Nevertheless, growth in 1997 remained at a high level of 7.8 per cent. This is explained by the fact that "a large part of Singapore's regional trade consists of intra-firm movements of parts, components and final products by multinational companies for export to end markets in the OECD countries. As final demand from the United States and the European Union was healthy, Singapore's overall trade was not too seriously affected by the regional crisis".¹ However, the Government has recently revised its growth forecast for 1998 downwards to between 2.5 and 4.5 per cent. This is based on the expectation that growth in the finance, tourism and transportation sectors, which have a strong regional orientation, will slow down because of the regional crisis. However, forecasts of international finance houses are more optimistic than this, predicting growth of close to 6 per cent, based on an expectation of strong export demand from OECD countries.

China and *Viet Nam* have been relatively insulated from the currency and capital market turmoil in Asia by the fact that they have not undergone significant liberalization of the financial sector and have low foreign debt exposure. The main impact of the crisis will be felt through a slowing down of foreign direct investment (FDI) inflows from crisis-affected countries in the region were important investors in these two countries. Export growth is also expected to slow down. In the case of Viet Nam, this is because 70 per cent of its exports go to South-East and East Asia. The depressed import demand in these latter countries will mean slower export growth in spite of the 15 per cent devaluation of the Vietnamese dong. In the case of China the main impact will be felt through the loss of competitiveness as a result of the large devaluations of regional currencies, and a key question is whether it too will have to devalue in response. In spite of these effects GDP growth will decelerate only slightly in these two countries. GDP growth in 1998 is forecast to be 6.5 and 8 per cent, respectively, in Viet Nam and China.

¹ Singapore Government: *1998 Budget Statement* (31 Mar. 1998).

1.1. Origins and nature of the crisis

A great deal has been written on the origins and nature of the crisis since its onset. Apart from understandable media interest there has also been a steady stream of analyses of the issue by academics, central bankers and policy-makers.¹ There are several reasons for this high degree of interest. One is the sheer unexpectedness and magnitude of the crisis that struck a set of countries long considered as “economic miracles”. Another is apprehension over the potential spread of contagion effects beyond Asia to the rest of the world economy. Yet another is that there were new and unprecedented elements of the crisis which did not fit standard models of currency and financial crises and which could not easily be understood by reference to recent experiences such as the Mexican crisis in 1995. Some of these new elements, such as the sudden and massive shift in sentiments towards these countries on the part of international financial markets, the relative ineffectiveness of efforts so far to stabilize markets, and the general failure on the part of governments, international organizations and markets to anticipate the crisis, pose new and difficult problems for analysis. They also raise critical issues of national and international public policy in the context of growing globalization of financial markets. Foremost among these is the question of what can be done to avert or reduce the likelihood of similar crises in the future.

Given the new and as yet poorly understood elements in the crisis, as well as the fact that we are still in the midst of it, it would be foolish to make firm pronouncements at this stage. Moreover, it is also clear that the crisis was caused by many factors and the conjunctural interreaction amongst them. It is thus unlikely that singling out one or two causes will yield an adequate explanation. Similarly, it will be difficult to assign weights to indicate the relative importance of different factors. The best that can be done at this stage is to highlight some of the factors that appear, to many observers, to be important parts of the explanation of the crisis.

A key element is that, regardless of how responsibility is ultimately apportioned between domestic and external causes, it is clear that the behaviour of the international financial market was part of the problem on two counts. The first is the high level of lending and inflows of portfolio investment it sanctioned in the years immediately prior to the crisis. With hindsight this must count as a market failure since the risk of such high levels of lending and the fact that they exceeded the capacity of borrowing countries to absorb the funds productively were not perceived. The second is the overreaction beyond what was warranted by economic fundamentals once the crisis broke. One dimension of this was the largely indiscriminate initial propagation of the currency crisis from Thailand to other Asian countries even though there were significant differences in economic fundamentals amongst them. The other dimension was the depth of the currency depreciation and fall in equity prices, which went beyond necessary levels of correction. It could be argued that there was a significant element of self-fulfilling panic in the reactions of the international financial market.

But these imperfections in international capital markets are far from the whole story. Ultimately it is through deficiencies in domestic policy that the preconditions for the crisis were created. While it is true that all the affected countries had pursued sound policies in core areas such as the maintenance of fiscal balance, low inflation, high domestic savings, and open trade and investment policies, there were nevertheless deficiencies in other areas which turned out to be serious. This is especially true of the handling of financial liberalization and the failure to put in place adequate regulation of the banking and non-bank corporate sector in the face of the newly acquired easy access to foreign funds. It could of course be argued, in mitigation, that these were relatively new and inherently complex areas of policy and that there was no established body of policy guidelines, nor much relevant previous experience, to rely upon. But

¹ See list of references at the end of this chapter.

with hindsight it is clear that a basic flaw was the underestimation of the risks associated with the policies and practices that were pursued in the years immediately preceding the crisis.

From the standpoint of overall development strategy it could be argued that it was unwise to persist in pursuing exceptionally high growth through increasing reliance on foreign borrowing. Unlike the typical developing country, these Asian economies had exceptionally high rates of domestic saving of over 30 per cent of GDP. There was thus little need or justification to seek to augment these investible resources through foreign borrowing. Pushing up investment rates to 40 per cent or more through foreign borrowing could only contribute to a lowering of the rate of return from investment. As it turned out much of the excess investment went into financing asset price inflation and the growth of non-tradeable activities with relatively low returns. It is also arguable that there were danger signals of overheating that were not acted upon. The abrupt rise in asset prices was a case in point. In addition, especially in Malaysia and Thailand, the sharply increased reliance on foreign workers over this period should have raised questions about the sustainability of the very high rates of growth.

There were also inadequacies in the handling of the impact of the huge surge in capital inflows in the years immediately preceding the crisis (see table 1.2). These inflows were very large, amounting up to 12.7 per cent of GDP in Thailand in 1995. Several features of the policy regimes supported these large inflows. The first was the policy of pegging exchange rates to the dollar in the case of Thailand and Malaysia. This signalled a guarantee against exchange rate loss which encouraged both domestic borrowers and foreign lenders to increase the flow of funds. The second was the creation of incentives to foreign borrowing by maintaining domestic interest rates that were significantly higher than the world market rate. While it could be argued that this was largely unavoidable, being in part the result of attempts to sterilize some of the capital inflow, this should have signalled the need to look for additional instruments to deal with the foreign capital inflow problem.

Table 1.2. Net capital flows (% of GDP)

	1983-88	1989-95	1991	1992	1993	1994	1995	1996	1997
Thailand									
Private	3.1	10.2	10.7	8.7	8.4	8.6	12.7	9.3	! 10.7
Official	0.7		1.1	0.1	0.2	0.1	0.7	0.7	4.9
Indonesia									
Private	1.5	4.2	4.6	2.5	3.1	3.9	6.2	6.3	1.6
Official	2.4	0.8	1.1	1.1	0.9	0.1	! 0.2	! 0.7	1.0
Korea, Rep. of									
Private	! 1.1	2.1	2.2	2.4	1.6	3.1	3.9	4.9	2.8
Official		! 0.3	0.1	! 0.2	! 0.6	! 0.1	! 0.1	! 0.1	! 0.1
Malaysia									
Private	3.1	8.8	11.2	15.1	17.4	1.5	8.8	9.6	4.7
Official	0.3		0.4	! 0.1	! 0.6	0.2	! 0.1	! 0.1	! 0.1
Philippines									
Private	! 2.0	2.7	1.6	2	2.6	5	4.6	9.8	0.5
Official	2.4	2.0	3.3	1.9	2.3	0.8	1.4	0.2	0.8
Singapore									
Private	5.0	3.8	1.7	! 2.7	9.4	2.5	1.3	! 10.1	! 5.5
Official									
China									
Private	1.2	2.5	1.7	! 0.9	4.5	5.6	5.2	4.7	3.7
Official	0.3	0.5	0.3	0.8	0.9	0.4	0.3	0.2	! 0.1

Source: IMF: *World Economic Outlook*, Interim Assessment, Dec. 1997.

A basic shortcoming was the failure to ensure that financial liberalization was accompanied by the development of a commensurate capacity to monitor and regulate the newly liberated financial system. There were several dimensions to this problem. One was an information gap. Financial liberalization meant the privatization and decentralization of foreign borrowing but no adequate systems were put in place to monitor the extent of borrowing, and its term structure. As a consequence the growing problem of over-leveraged, unhedged, short-term borrowing was not perceived early enough (see table 1.3). This in turn created a policy “blind spot” which ruled out the consideration of pre-emptive countervailing action.

Table 1.3. International claims by foreign banks (US\$ billions)

	Total outstanding	Non-bank sector	Non-bank/ total (%)	Short-term debt	Foreign reserves	Short-term/ reserve
Dec. 1995						
Thailand	92.18	12.56	13.63	60.56	36.00	1.68
Indonesia	48.93	27.93	57.08	22.35	20.20	1.11
Korea, Rep. of	83.26	17.91	21.51	56.03	33.20	1.69
Malaysia	18.76	5.54	29.53	7.27	26.80	0.27
Philippines	8.07	3.12	38.63	5.28	10.00	0.53
Singapore	282.03	5.65	2.00	1.22	75.00	0.02
Hong Kong, China	513.04	22.58	4.40	7.85	57.20	0.14
China	67.06	1.61	2.40	40.40	76.20	0.53
Dec. 1996						
Thailand	98.71	14.00	14.18	58.33	37.70	1.55
Indonesia	56.54	34.57	61.15	24.75	16.70	1.48
Korea, Rep. of	108.79	23.87	21.94	69.17	33.10	2.09
Malaysia	25.84	6.86	26.56	5.20	23.70	0.22
Philippines	13.35	3.99	29.88	7.63	6.40	1.19
Singapore	286.97	6.61	2.30	1.10	67.80	0.02
Hong Kong, China	467.15	26.51	5.68	8.23	69.60	0.12
China	79.64	17.85	22.41	48.48	104.30	0.46
Sep. 1997						
Thailand	87.29	12.59	14.42	46.66	28.60	1.63
Indonesia	63.71	38.85	60.98	35.32	20.30	1.74
Korea, Rep. of	114.27	26.42	23.12	77.94	31.20	2.50
Malaysia	32.87	7.15	21.76	3.80	21.70	0.18
Philippines	15.55	5.20	33.45	7.70	9.40	0.82
Singapore	296.14	9.69	3.27	1.20	77.30	0.02
Hong Kong, China	491.08	25.87	5.27	8.67	91.80	0.09
China	90.59	18.30	20.20	55.75	136.00	0.41

Sources: Bank for International Settlements (BIS): International Banking and Financial Market Developments (Basle, Feb. 1998); EIU Country Risk Service, fourth quarter 1997 and first quarter 1998; *The Economist*, various issues.

This was linked to the problem of inadequate regulation of the domestic operations of the banking system. Weaknesses in accounting systems and disclosure rules meant that there was a lack of transparency about the operations and soundness of banks. This was compounded by weak prudential regulation of the banking system, especially with respect to capital adequacy requirements. A related problem was the weakness of the project evaluation capacity in banks in the face of increased competition to lend in the context of financial liberalization. This, together with the removal of controls over the allocation of credit, increased the probability of a flow of funds into the fuelling of asset bubbles. In addition there were parallel weaknesses in the non-bank corporate sector with respect to a lack of transparency, the poor quality of

governance and the maintenance of high debt-to-equity ratios. All these weaknesses created the preconditions for growing systemic fragility in the financial and non-bank corporate sectors.

To varying extents in different countries, these basic weaknesses were magnified by the growth of what has been termed “crony capitalism”. Connections between politicians in power and certain private enterprises created a moral hazard problem whereby these enterprises were seen as carrying an implicit guarantee against insolvency. There was thus a strong incentive for financial institutions to lend to these enterprises regardless of the soundness of their operations. The moral hazard problem arose even more directly when banks and finance companies themselves had close political connections. In some cases these problems were made worse by direct political interference in the allocation of credit and in creating monopolies in certain activities. These types of political interference in the operation of markets are clearly likely to have contributed to the problem of excessive and misallocated investment and a consequent lowering of the rate of return on capital.

This set of policy lapses coalesced into a critical mass of economic fragility which contributed to the massive loss of confidence in international financial markets when the seeds of doubt were first sowed with the onset of the Thai currency crisis. It also greatly compromised the ability of these economies to withstand the shock of the large-scale outflow of foreign capital. In particular, the weakness in the financial sector proved to have large negative macroeconomic effects.

1.2. Outlook

It is clear that 1998 will be a bad year but it is far more difficult to forecast how soon and how strongly the recovery will come. An optimistic view is that the crisis will be “V-shaped” in nature, that is, a deep and sharp recession followed by an equally steep recovery, as was the case of the recent Mexican crisis. But there are several reasons for doubting that this will be the case in the current Asian crisis.

A basic reason is that the key to rapid recovery is the restoration of confidence in these countries in international financial markets, but the requirements for achieving this are quite formidable. These extend beyond conventional stabilization measures, such as the reduction in current account deficits, to difficult challenges of financial sector reform and corporate sector restructuring. Apart from the immediate problem of reducing current fragility in the banking system, which will itself be a costly exercise for government budgets, credible steps to correct the deficiencies in financial sector regulation will also have to be taken simultaneously. This is because the loss of confidence in these economies was provoked not only by the immediate debt problems but also by a perception, albeit belated, of systemic fragility in the financial sector. Deep reform of the financial sector is inherently difficult and time-consuming and also involves overcoming political vested interests. A degree of uncertainty therefore remains over whether firm initial measures that are credible enough to financial markets will be implemented.

Similar observations apply to the problem of corporate workouts and restructuring. There is the immediate and difficult problem of performing a “triage” to save viable enterprises through orderly workouts. But there is also the need for simultaneous action to correct deficiencies in corporate governance, such as the lack of transparency and poor accounting systems. Particular attention will need to be paid to the issue of reducing the typically high debt-to-equity ratios and imprudent reliance on short-term foreign borrowing. As in the case of financial sector reform, a critical issue is whether credible signals on the seriousness of the reform effort will be sent to financial markets.

It should of course be noted that these reform efforts are necessary not only for restoring confidence to international financial markets but are also essential, in themselves, for economic recovery. Delayed or half-hearted reform efforts will only perpetuate fragility in the financial and

corporate sectors and impede recovery. In particular, without a swift restoration of confidence in the banking system and normal functions of financial intermediation the potential recovery in exports permitted by the currency devaluations will remain under-exploited.

Other sources of uncertainty over the prospects for recovery remain. One is the question whether an export-led recovery will be able to play its full role. On the positive side, the recovery in the European Union and continued steady growth in the United States provide favourable prospects for export growth unless they trigger off protectionist responses. But this must be set against the continuing uncertainty over the prospects for reflationary measures in Japan and the possibility of competitive devaluations of other currencies in the region which have so far held firm. The risk of social unrest and political instability in some of the most severely affected countries also has to be recognized.

Taking all the above considerations into account, it would appear that an immediate bounce back is highly unlikely. Indeed most forecasts predict only a moderate recovery in 1999. Whether or not growth will, thereafter, return to the heady levels of the pre-crisis period must for the moment remain an open question.

Finally, it is important to note that there are significant differences in the recovery prospects for the three most severely affected countries. This is directly related to the extent to which they have embarked upon and are pursuing credible reform measures. The Republic of Korea and Thailand appear to be on track for recovery, whereas considerable uncertainty remains over the prospects for Indonesia.

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Table 1.1. Real GDP growth (%)

	1990	1991	1992	1993	1994	1995	1996	1997*			1998**			1999**		
								IMF	EIU	UBS	IMF	EIU	UBS	IMF	EIU	UBS
Thailand	11.6	8.1	8.2	8.5	8.9	8.7	6.4	0.0	0.4	0.0		! 3.0	! 3.0		2.5	1.0
Indonesia	9.0	8.9	7.2	7.3	7.5	8.2	8.0	5.0	4.1	4.7	2.0	2.7	! 5.0		5.2	0.0
Korea, Rep. of	9.5	9.1	5.1	5.8	8.6	8.9	7.1	5.9	6.0	5.6	1.0	! 1.2	2.0	4.1	4.6	4.4
Malaysia	9.6	8.6	7.8	8.3	9.2	9.5	8.6	7.3	7.0	7.9	2.5	3.4	4.4		5.2	5.0
Philippines	3.0	! 0.6	0.3	2.1	4.4	4.8	5.7	5.1	4.9	4.7	3.8	2.4	3.0		4.0	3.2
Viet Nam	4.9	6.0	8.6	8.1	8.8	9.5	9.3	7.5	9.0			6.2			6.9	
Singapore	9.0	7.3	6.2	10.4	10.5	8.8	7.0	7.6	7.6	7.6	4.0	2.5	5.7	6.6	4.1	5.0
Hong Kong, China	3.4	5.1	6.3	6.1	5.4	3.9	4.9	5.3	5.3	5.2	3.0	4.5	3.0	4.3	4.4	3.3
China	3.8	9.2	14.2	13.5	12.6	10.5	9.7	8.8	9.3	8.8	7.5	8.0	8.1		8.5	8.0
Japan	5.1	3.8	1.0	0.3	0.6	1.5	3.9	1.1	0.9		0.3			2.1		

*Estimate. ** Projection.

Sources: International Monetary Fund (IMF): *World Economic Outlook*, Mar. 1998; *World Economic Outlook*, Interim Assessment, Dec. 1997; The Economist Intelligence Unit (EIU): Country Risk Service, 1st quarter 1998 and 4th quarter 1997; and Union Bank of Switzerland (UBS): *Asian Economics Weekly*, 27 Feb.-5 Mar. 1998.

2. The social impact

2.1. Introduction

The unexpected and massive financial and economic crisis described in the previous chapter has, by now, been translated into a high level of job losses and consequential social distress in Indonesia, Thailand and the Republic of Korea. The pre-crisis period of high growth had also meant high rates of employment growth that exceeded rates of labour force growth, except in Indonesia. This ensured very low rates of open unemployment and a high probability for new entrants to the labour market to obtain a relatively good job by local standards, as well as for those in low productivity employment to move to a better job in the modern sector of the economy. Even though there were still significant levels of underemployment in Thailand and Indonesia (which still have large numbers working in the rural and urban informal sectors) the dynamics of job creation, especially the rapid growth in modern sector jobs, meant that overall employment prospects were improving steadily in the pre-crisis period.

The major social impact of the economic crisis lies in the sudden reversal of this system of sharing the benefits of economic growth through steadily improving employment prospects. As the financial crisis hit the real economy in the form of near-zero or negative GDP growth there has been, and will continue to be, a sharp deterioration of labour market conditions. Firstly, there have already been substantial retrenchments, especially in the construction, financial services and manufacturing sectors. Secondly, there has been an abrupt decline in new hiring, which will sharply reduce the employment prospects of new entrants to the labour market and the re-employment prospects of displaced workers. The combined impact of these two factors is likely to lead to at least a doubling of open unemployment rates, even after allowing for the fact that some proportion of displaced workers and unsuccessful aspirants to a modern sector job will settle for inferior employment in either the rural or the urban informal sector. However, as will be seen in the subsequent country-specific analyses, there are strong grounds for believing that this adjustment mechanism will be weaker than it has been in the past. Thirdly, there is likely to be a significant rise in underemployment, on both the hours of work and the income measure, under the impact of an increased influx of displaced workers and unsuccessful new jobseekers into the rural and urban informal sectors. Given the sharp falls in domestic demand that have occurred in these countries the aggregate income-generating potential of the rural and urban informal sectors will be quite limited. The increased influx of workers seeking a livelihood in these sectors is highly likely to imply reduced average incomes. Fourthly, the real earnings of those remaining in employment will fall under the combined impact of the decline in labour demand and increased inflation caused by the substantial currency devaluations. Finally, the increase in open unemployment, together with the fall in real earnings, is likely to swell the ranks of those with incomes below the poverty level.

Adverse developments of this magnitude constitute, in themselves, a substantial shock to any social system. But their effects are amplified in the three severely affected countries by two additional features of their economic systems. The first is the absence of a meaningful social safety net. Of the three countries, only the Republic of Korea has an unemployment insurance system, but it is of recent origin and still of limited coverage and duration. Systems of social assistance are also rudimentary and are limited to those who are incapable of work. The vast majority of displaced workers will thus have to fend for themselves during the crisis. The second feature lies in the fact that social expectations in these countries have been shaped by a long period of increasing employment opportunities and this makes the current shock in the labour market all the ruder. Indeed this combination of sharp and unexpected social pain on the one hand, and the lack of collectively provided relief on the other, is fertile ground for breeding social unrest.

In the rest of this chapter the social impact of the economic crisis will be examined in each of the three severely affected countries. Apart from the effects on employment, incomes and poverty in these countries, there will also be a discussion on how the crisis has affected more vulnerable groups such as women and migrant workers.

2.2. Retrenchments and unemployment

Indonesia

GDP growth in Indonesia was 7.6 per cent per annum during the period from 1990 to 1996. On the employment front, however, the performance during the pre-crisis period had been less impressive. While there had been a significant shift in the sectoral composition of employment (table 2.1), the growth of employment had lagged behind that of the labour force during the period 1985-95. Approximately 4.4 million people (or nearly 5 per cent of the labour force) were already looking for jobs in 1996.¹ Annual addition to the labour force is in the range of 2.2 to 2.3 million — depending on the source of data.² In addition, some 40 per cent of all workers suffer from underemployment (defined as working less than 35 hours per week).³ The informal sector still accounts for nearly two-thirds of total employment.

Table 2.1. Sectoral composition of employment, 1996

Sector	Number	Percentage
Agriculture	37 720 251	44.01
Mining and quarrying	774 211	0.90
Manufacturing	10 773 038	12.57
Electricity, gas and water	164 142	0.19
Construction	3 796 228	4.43
Trade, hotel and restaurants	16 102 552	18.79
Transport and communications	3 942 799	4.60
Finance, insurance, real estate and business	689 733	0.80
Public services	11 728 495	13.68
Others	10 364	0.03
Total	85 701 813	100.00

Source: Central Bureau of Statistics (BPS): *Statistical Yearbook of Indonesia (1996)*.

The financial crisis hit the Indonesian economy at a time when it was already facing dwindling exports, a slowdown in overall growth, and a sharp drop in rice production leading to imports of rice and prospects of a substantial increase in food prices.

One way in which the impact of the crisis on unemployment can be gauged is to apply recent employment elasticities to projected GDP in 1998 and 1999.⁴ Two alternative assumptions

¹ Based on labour force survey data. Use of census and inter-censal survey data would perhaps yield a figure of approximately 6 million people.

² The labour force surveys yield higher figures of total workforce compared to census and inter-censal data, as well as higher growth rates in the 1990s.

³ According to data from Labour Force Survey, 1996.

⁴ The following steps are involved in the present projection exercise. An overall employment elasticity (of 0.2936) has been calculated for the period 1985-95 using the GDP and employment growth rates for the period. This figure is

about GDP growth for 1998 — zero growth and a 5 per cent contraction — were used. With zero growth of GDP, the projected level of unemployment for 1998 is nearly 7.9 million¹ or 8.3 per cent of labour force. A 5 per cent contraction of GDP yields an unemployment figure of nearly 9.2 million (9.7 per cent of labour force) which is more than double the level prevailing in 1996. The projected unemployment rate for 1998 thus ranges between 8 and 10 per cent depending on the GDP growth assumed for the year, compared with about 5 per cent in 1996.

It should be noted that, given the doubtful quality of the data and the continuing economic uncertainty, forecasts such as the above can give no more than an indication of the broad orders of magnitude on which policies need to be based. Another factor that will be an important influence on how rates of open unemployment evolve is the proportion of the potentially unemployed that will be absorbed in the rural and informal sectors of the economy. As is well known, in a country like Indonesia where a sizeable segment of the population is still poor and there is no unemployment benefit, people cannot afford to remain openly unemployed for long. Indeed, the rate of underemployment, defined as the proportion of the workforce working less than 35 hours per week, was 41.47 per cent in 1996.²

One view is that agriculture in Indonesia has undergone such a transformation and has been commercialized to such an extent that its capacity to absorb additional labour has been greatly reduced. This view also holds that many of those working in manufacturing, construction and other sectors in urban and semi-urban areas are no longer recent migrants from the countryside and have lost the necessary links to rural areas to enable them to return and be reabsorbed there.

While it is true that with the advent of the “green revolution” many of the traditional institutions of work-sharing have declined in importance, pure wage employment still accounts for only 13 per cent of total employment in agriculture (see table 2.2). This continuing importance of family-based forms of employment suggests that there is still considerable scope for absorbing new entrants, especially family members. This will, however, be at the cost of reduced labour productivity and returns per capita.

Table 2.2. Employment status in selected sectors, 1996

Status	Percentage of total employment		
	Agriculture	Trade, hotel and restaurants	Transport and communications
Self-employed	16.50	41.40	47.09
Self-employed with assistance from family member or temporary employee	38.50	26.78	7.17
Employer	0.84	1.91	3.33
Employee	13.10	15.43	41.69
Unpaid worker	31.16	14.47	0.71

Source: Calculated from the labour force survey data in *Statistical Yearbook of Indonesia*, op. cit.

then used to project employment for 1997 (using the projected GDP growth of 5 per cent for the year and the 1996 employment figure based on labour force survey data). Labour force for 1997 is projected by applying the annual growth rate of 2.6 per cent to the 1996 figure obtained from the labour force survey. Projections of labour force and employment made in the above manner yield an unemployment figure of approximately 5.5 million for 1997 (or 5.94 per cent of the labour force). Labour force for 1998 is projected by applying the same growth figure of 2.6 per cent.

¹ This figure is lower than government estimates. One reason for the difference is that the assumption of 400,000 job losses per 1 per cent reduction in GDP growth implies a higher employment elasticity than the one estimated by us for the period 1985-95. This higher elasticity is not realistic, however, because employment elasticity in Indonesia has been declining in recent years. Indeed, the figure for 1990-95 would be lower than that for 1985-95.

² This figure is based on Labour Force Survey, 1996.

Similarly, the corresponding figures on employment status in the trade and transport sectors indicate that much of the employment in these two sectors is also of the informal type. One should not, therefore, be surprised if open unemployment does not actually grow at the alarming rates indicated by the forecasts made in the earlier section. A more likely outcome is substantially higher rates of underemployment and declining average incomes in sectors such as agriculture, trade, transport and other largely informal activities.

Republic of Korea

In the Republic of Korea, reliable and comprehensive data on lay-offs were not available until February 1998, when the newly adopted regulations on lay-offs obliged employers to report mass lay-offs to the labour market authorities. The Ministry of Labour has estimated that in the first two months of 1998, 70 firms resorted to mass lay-offs affecting 7,500 workers. This figure can be compared to the total of 77 firms laying off 10,500 workers over the whole of 1997. These figures, of course, do not cover unreported lay-offs.

However, the monthly net increase in the number of job losers among the unemployed (recorded in the Labour Force Survey) can be taken as a proxy for trends in job losses over the past few months. This is based on the assumption that the share of job losers among the unemployed, for which data were available only for the last quarter of 1997, did not change significantly over the period examined.

Table 2.3 suggests that the economy experienced only moderate net job losses over the last two months of 1997. This is confirmed by employment data: the total number of employed persons in December 1997 was only 43,000 less (! 0.2 per cent) than a year earlier. On the other hand, total employment declined by some 620,000 jobs (! 3 per cent) between October and December 1997, mainly in the seasonally sensitive agricultural sector and, to a smaller extent, the construction sector. Employment in the manufacturing and services sectors remained essentially unchanged.

Table 2.3. Number of job losers among the unemployed

	Number of job losers	Net increase
October 1997	257 000	
November 1997	327 000	70 000
December 1997	375 000	48 000
January 1998	533 000	158 000

From January 1998, however, the economic recession had accelerated individual job losses. In addition to job losses among individual workers, there is also evidence of net job destruction, with total employment in January 1998 falling by 686,000 jobs, or 3.4 per cent, compared to January 1997.

Until February 1998, most of the lay-offs occurred in connection with enterprise bankruptcies. The number of bankruptcies, which varied between 1,100 and 1,500 a month in the first 11 months of 1997, jumped to over 3,000 in December and increased further in January 1998. A total of 6,530 companies, mainly small and medium-sized enterprises (SMEs), went out of business in December and January, but data are not available on how many workers were affected by these bankruptcies.

From 1987 to the onset of the crisis unemployment had stayed below 3 per cent thanks to rapid economic growth. In 1995 and 1996, there was near full employment and, in fact, emerging labour shortages. With the financial crises, unemployment has been rising rapidly. The number of jobless rose from 451,000 (or 2.3 per cent) in October to 658,000 (or 3.1 per cent)

in December 1997. In January 1998, unemployment rose to 934,000 persons (or 4.1 per cent), an increase of 41 per cent over the month. In February the number of unemployed workers increased further by more than 300,000, reaching a record level of 1.24 million, while the unemployment rate rose to 4.7 per cent (table 2.4).

Table 2.4. Employment trends (thousands)

	Economically active population (participation rate)	Number of employees	Number of unemployed	Unemployment rate (seasonal adjustment)
1996	21 188 (62.0)	20 764	425	2.0
First quarter 1997	21 112 (61.1)	20 466	646	3.1 (2.6)
Second quarter 1997	21 868 (63.1)	21 319	550	2.5 (2.6)
Third quarter 1997	21 806 (62.6)	21 336	470	2.2 (2.4)
Fourth quarter 1997	21 632 (61.9)	21 071	561	2.6 (2.8)
October 1997	21 793 (62.5)	21 341	451	2.1 (2.3)
November 1997	21 762 (62.3)	21 188	574	2.6 (2.9)
December 1997	21 340 (61.0)	20 682	658	3.1 (3.1)
January 1998	20 645 (58.9)	19 711	934	4.5 (4.1)
February 1998	20 760 (59.2)	19 562	1 235	5.9 (4.7)

Source: National Statistical Office: *Report on the 1997 Employment Trends and Monthly Report on Industrial Activities* (1998).

The growth of unemployment has hit recent school leavers and first-time jobseekers hardest. Given the legal restrictions on lay-offs (until mid-February 1998), financial difficulties and contracting demand have prompted many employers to introduce a recruitment ban. As a result, the number of unemployed school leavers has increased rapidly. In the last quarter of 1997, the youth unemployment rate was 7.4 per cent and 11.8 per cent in the age groups 20-24 and 15-19, respectively (see tables 2.5 and 2.6). To date, middle-aged and older workers have been less adversely affected because of the old labour law that restricted lay-offs. The unemployment rate among males has, so far, been higher than that of females. However, as shown in table 2.5, female unemployment increased by a larger margin than male unemployment between 1996 and the fourth quarter of 1997. This is mainly because it has been male-dominated industries and sectors that have been hit hardest so far.

Table 2.5. Composition of the unemployed: Job losers and first-time jobseekers by sex (thousands) (percentage change compared with the same period in the previous year)

	1996	Fourth quarter 1996	1997	Fourth quarter 1997
Total unemployed	425	439	556 (30.8)	561 (27.8)
New jobseekers	165	183	237 (43.6)	240 (31.1)
Job losers	259	256	319 (23.2)	321 (25.4)
Male unemployed	290	293	352 (21.4)	359 (22.5)
Male new jobseekers	104	111	138 (32.7)	140 (26.1)
Male job losers	186	182	215 (15.6)	219 (20.3)
Female unemployed	134	146	204 (52.2)	56 (38.4)
Female new jobseekers	61	71	100 (63.9)	29 (40.8)
Female job losers	73	75	105 (43.8)	27 (36.0)

	1996	Fourth quarter 1996	1997	Fourth quarter 1997
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Source: *ibid.*

Table 2.6. Unemployment rate by age group

Age group	1996	Fourth quarter 1996	1997	Fourth quarter 1997
Total	2.0	2.0	2.6	2.6
15-19	7.5	8.0	9.9	11.8
20-24	5.9	6.2	7.2	7.4
25-29	3.4	3.4	4.1	4.2
30-39	1.4	1.4	1.9	1.8
40-49	1.1	1.1	1.5	1.5
50-59	0.9	0.9	1.3	1.3
Over 60	0.4	0.3	0.8	0.9

Source: *ibid.*

Unemployment will almost certainly continue to rise during the course of 1998, with the problem of lay-offs likely to remain serious. A survey conducted by the Korea Chamber of Commerce and Industry in January revealed that 12 out of the top 30 business conglomerates in the country wished to downsize by 20 to 50 per cent. This indicates that high levels of labour surplus currently exist in large companies. The Government has also announced a 10 per cent cut in public service employment. The lay-off regulations adopted in February 1998 allow companies to lay off workers in emergency situations such as financial problems, mergers or acquisitions. Before resorting to lay-offs, however, the regulations require employers to explore all possible ways (redeployment, cuts in wages and in working time, etc.) to avoid or minimize redundancies. Since the regulations stipulate that management must give 60 days' notice before dismissing workers and make a prior report to the Ministry of Labour, it is to be expected that after April there could be a significant increase in the number of lay-offs.

In January 1998 both the Ministry of Finance and Economy and the Ministry of Labour estimated that unemployment will rise to about 5 per cent (1.05 million unemployed) by the end of 1998. This was based on the assumption that GDP growth will be 1 per cent. Some national research institutes have forecast a 3 per cent decline in GDP for the year (see table 2.7), which would bring the unemployment rate to over 6 per cent. However, based on the noticeable jump in unemployment in January and February the Ministry of Labour has recently predicted that the number of unemployed will now exceed 1.5 million between March and May, with the unemployment rate soaring to a new high of 7 per cent.

However, a number of uncertainties remain over how unemployment will evolve. A major one that has not been taken into account in these estimates is the impact of likely industry and enterprise level restructuring (involving mergers, takeovers and the much discussed but so far undecided reform of the *chaebol* system). The level of unemployment would be influenced not only by macroeconomic performance of the economy but also by how enterprises and whole industries reorganize production and their workforces.

Table 2.7. Major indicators: Economic forecast by the Daewoo and Samsung Institutes

	1996	1997	1998 projection by Daewoo Institute	1998 projection by Samsung Institute
GDP growth (%)	7.1	5.7	! 3.0	! 3.0
Private consumption (%)	6.9	4.1	! 4.6	! 1.1
Investment (%)	7.1	! 3.6	! 19.1	! 24.5
Equipment investment (%)	6.3	! 1.0	! 14.8	! 33.0
Construction investment (%)	8.2	! 6.9	! 24.8	! 18.0
Unemployment (%)	2.0	2.6	6.3	6.2
CPI (%)				7.5
Current balance account (US\$ billion)	! 237.2	! 88.5	! 14.6	62
Balance of trade account (US\$ billion)	! 152.8	! 28.0	95.4	102
Exports (US\$ billion)	1 297.3	1 366.0	1 435.7	1 393
%	3.7	5.3	5.1	3.0
Imports (US\$ billion)	1 503.3	1 446.0	1 380.9	1 291
%	11.3	! 3.8	! 4.5	! 7.0
Won/US\$ (average)		949.9	n.a.	1 300

Source: Daewoo Economic Institute, 1997; Samsung Economic Research Institute, 1997.

Thailand

In Thailand 54,000 workers were recorded as retrenched over the period January 1997 to February 1998. Slightly more women than men were made redundant. This however represents only a small part of the overall picture. The reason is that the figure of 54,000 reflects only those lay-offs in which severance payments were made as reported by labour inspections over this period or through severance pay disputes brought to the attention of the authorities through the labour court system (table 2.9). The actual number of crisis-induced lay-offs is widely assumed to be substantially higher. Industry associations, for example, reported job losses of some 422,000 to the end of 1997 (table 2.8). Over half of these (or 252,000) occurred in the construction industry, with the bulk of the remainder (151,000) occurring in manufacturing industries. The manufacturing figure comes close to another job loss figure (165,000) from the records of the Social Security Office (SSO). Employer contributions to social security are payroll-based and there is thus a strong incentive for employers to report lay-offs to the SSO. There is likely to be under-reporting of lay-offs from SSO data as the rate of non-compliance with SSO regulations may be as high as 25 per cent. Taken together, the various data sources in Thailand strongly suggest that the lay-off rate is substantially higher than the figure of 54,000 compensated job losers in table 2.9.

In January 1998 a government survey of workers returning to rural (non-municipal) areas placed the figure at 188,000 persons (table 2.10). Compared to each region's rural population, the highest proportion returned to the north-east. This pattern of return movement puts pressure precisely on the weakest parts of the Thai agricultural sector. At the end of 1997, the north and north-east were hit particularly hard by drought. These regions furthermore had evolved an economy in which remittances from urban areas played a major role in sustaining living standards.

Table 2.8. Estimated number of job leavers in private industrial sectors in the third and fourth quarters of 1997

Branch of the economy	Total employment in industry association sample	Job leavers			
		Third quarter (July-Oct.)	Fourth quarter (Oct.-Jan.)	Total	%
Industry	620 559	119 620	31 837 ¹	151 457	24.41
Chemical	40 000	12 000	No new jobs	12 000	30.00
Plastics	101 500	20 300	4 000	24 300	24.00
Rubber tires	39 400	—	7 880	7 880	20.00
Printing	57 357	20 000	No new jobs	20 000	34.87
Auto parts	114 102	40 000	n.a.	40 000	35.06
Electrical/electronic	120 000	—	12 000	12 000	10.00
Footwear	54 000	2 626	n.a.	2 626	5.24
Food	94 200	24 492	10 456	34 948	37.10
Services	321 800	9 483	8 080	17 572	5.46
Commercial banking	122 979	615	No new jobs	615	0.50
Financial ²	24 594	5 304	6 000	11 304	45.96
Insurance	66 317	—	No new jobs	—	—
Export trade	n.a.	—	—	—	—
Hotel	108 000	3 564	2 089	5 653	5.73
Construction ³	500 000	87 500	165 000	252 500	50.50
Total	1 442 449	216 603	204 926	421 520	29.22

¹ Not including those in the auto parts industrial group. ² Survey details from 70 companies, 31 Oct. 1997. ³ Most of the job leavers are agricultural workers who came in after harvesting and will go back to their rural villages and lose their agricultural jobs.

Technical note: Job leavers include: (i) those whose contracts are not renewed; (ii) those who are retrenched; (iii) voluntary departures.

Source: Compiled by the Human Resource Planning Division of the National Economic and Social Development Board (NESDB) on the basis of data from Thailand Industrial Association, Thailand Chamber of Commerce, Thailand Construction Industry and others.

Table 2.9. Lay-offs by sector and sex as revealed by establishment inspection and labour court records (January 1997-February 1998)

Sector	Number of establishments inspected	Lay-offs	
		Male	Female
Garments	24	648	2 120
Textile	34	1 025	3 032
Shoes and leather products	18	521	1 533
Toys	13	86	514
Food processing	23	836	1 803
Ornaments	18	327	344
Financial	115	2 622	3 337
Furniture and wood	46	2 052	580
Electrical and electronic	42	1 854	3 025
Autos and auto parts	103	3 472	1 172
Iron and steel	31	1 074	211
Services	111	987	794
Printing and advertising	19	509	498
Construction	162	3 383	1 270
Department stores/minimarts	31	560	1 340
Transportation	18	99	30

Sector	Number of establishments inspected	Lay-offs		
		Male	Female	
Concrete	56	1 598	682	
Retail/wholesale	134	922	884	
Plastics	22	907	659	
Other	174	3 248	3 338	
Total	1 189	26 730	27 166	53 896

Source: Ministry of Labour and Social Welfare.

Table 2.10. Unemployed and rural returnees during the economic downturn (as of 15 January 1998)

Region	Unemployed in agriculture	Unemployed in industry	Jobless workers returning to rural areas
North	238 103	43 852	47 075
North-east	517 099	57 157	101 413
Central	33 221	41 598	25 493
South	25 090	12 273	14 283
Total	813 513	154 880	188 264

Source: Ministry of the Interior.

It can be noted that of the 54,000 workers laid off between January 1997 and February 1998 (table 2.9) the consumer goods and durables manufacturing subsectors accounted for some 49 per cent, intermediate goods and construction some 8 per cent each, and financial services some 11 per cent.

As evidenced by the rising presence of migrant workers in Thailand in the 1990s, the country had virtually attained full employment prior to the onset of the economic difficulties. By end 1997, however, unemployment may have reached 1.15 million or approximately 3.5 per cent of the labour force. The Government now forecasts a rise in unemployment to just under 2 million by the end of 1998 and an unemployment rate of 5.6 per cent (table 2.11). This forecast, however, assumes a zero per cent growth rate. At the time of writing (mid-March 1998), the Thai authorities were revising their unemployment forecasts on the basis of an assumed growth rate for 1998 of ! 3.5 per cent.

Both unemployment and underemployment have customarily been very low in Thailand. Unemployment was recorded as 2.1 per cent in the February 1996 labour force survey and 1.1 per cent in August. Those who worked less than 35 hours per week and wanted more work accounted for 2.5 per cent of the labour force, or some 750,000 persons in 1996. The customarily low recorded levels of unemployment suggest great resilience and flexibility in the Thai labour force, so that job losses are most likely to show up as increased underemployment, and low earnings. If competition for work takes the form of a sharing of working hours in self-employment through involuntary underemployment, then 750,000 laid off workers, for example, could quadruple the recorded rate of underemployment.

Table 2.11. Estimated labour force, employment and unemployment, 1997-98
(thousands)

	1996* average figure	1997	1998
1. Economic growth (%)	5.5	0.6	0.0
2. Total population	60 003	60 602	61 201
3. Aged 13 years and over	45 837	46 543	47 240
4. Total labour force	32 381	32 553	32 745
5. New entrants	488	467	489
6. Employed	31 220	30 822	30 159
7. Unemployed	499	1 153	1 836
Open unemployment	115	357	679
Not looking for work but available	384	796	1 157
8. Seasonally inactive	662	578	750
Off-season (February)	1 160	1 036	1 350
In season (August)	164	120	150
9. Not in labour force	13 456	113 990	14 495
10. Aged under 13 years	14 166	14 059	13 961
11. Total unemployment rate (%)	1.54	3.54	5.6
Open unemployment rate (%)	0.36	1.10	2.07
Not looking for work but available (%)	1.19	2.44	3.53
12. Labour force participation rate (%)	70.64	69.94	69.32

* Average of labour force survey figures — 1st Round, Feb. and 3rd Round, Aug. 1996. National Statistics Office (NSO) data adjusted by the Human Resource Development division of the NESDB.

Source: Subcommittee on Labour Force, Employment and Unemployment estimation (NSO, Ministry of Labour and Thailand Development Research Institute (TDRI), Jan. 1998).

Like many countries in the region, Thailand has recorded a relatively high unemployment rate for those with upper secondary education, and a very low rate for those with some or completed elementary education. This sheds light on the employment prospects of current school leavers. Every year over 500,000 young people leave school with some or completed elementary education. Few of these would normally experience a time when they could be recorded as unemployed. Data suggest that among the new entrants in the labour market, female unemployment will be higher than among the males. This corresponds very closely with the unemployment situation among youth in the Labour Force Survey, 1996. Women predominate in the categories that have been singled out for high unemployment, such as vocational-level graduates, upper and secondary school students (age bracket 13-24 years). Female students with technical/vocational training had the highest employment rate, 4.2 per cent as compared to 3.3 per cent for males (Labour Force Survey, 1996). A further 130,000 or so leave after lower secondary, and perhaps nearly 200,000 either after secondary or after failing to complete tertiary education (university drop-outs). This group is probably most at risk of failing to find work and of adding to the number of recorded unemployed. In addition up to 100,000 tertiary graduates leave the education system annually. They too will inevitably experience longer spells of unemployment, even if they should be in a better position than drop-outs. These school leavers in their late teens and early 20s will not stay in the unemployment pool for as long as economic stagnation lasts; they will no doubt find and accept other work. But whereas in 1996 some 2 per cent of all 15 to 19-year-olds and 3 per cent of all 20 to 24-year-olds were unemployed, these rates could double and triple, respectively, in 1998.

2.3. Real wages

Republic of Korea

In the Republic of Korea real wages had been rising at a record pace over the past three decades, except during the second oil crisis period. Since 1997, however, the rate of growth of real wages decelerated significantly, from 6.6 per cent in the first quarter to 5.5 per cent in the second quarter to 2.7 per cent in the third quarter. The change in real wages recorded in the fourth quarter of 1997 immediately after the financial crisis was ! 2.3 per cent (table 2.12).

Table 2.12. Wage trends (non-agricultural industries)

	1995	1996	1997			
			First quarter	Second quarter	Third quarter	Fourth quarter
Total wage (<000 won/month)	1 222	1 368	1 430	1 401	1 543	–
Nominal wage (<000 won/month)	11.2	11.9	11.6	9.7	6.8	0.9
Consumer price index (% change)	4.5	5.0	4.7	4.0	4.0	3.2
Real wage (% change)	6.4	6.6	6.6	5.5	2.7	! 2.3

Sources: *Quarterly Labour Review*, Vol. 10, No. 4 (Korean Labour Institute, 1997), and unpublished data from the Korean Labour Institute (KLI).

The total wage in the Republic of Korea generally consists of three elements: the basic wage, overtime premium and bonus. The bonus element, which normally accounts for about 23 per cent of the total wage, registered a 14.6 per cent decrease in the fourth quarter of 1997, while the basic wage and the overtime wage showed nominal changes of + 7.2 per cent and ! 3.1 per cent, respectively (table 2.13).

Table 2.13. Trends of wage components (non-agricultural industries)
(<000 won/month)

	1995	1996	1997			
			First quarter	Second quarter	Third quarter	Fourth quarter
Total wage (% change)	1 222 (11.2)	1 368 (11.9)	1 430 (11.6)	1 401 (9.7)	1 543 (6.8)	– (0.9)
Basic wage (% change)	828 (10.9)	925 (11.7)	996 (12.4)	994 (10.3)	1 015 (8.2)	– (7.2)
Overtime wage (% change)	111 (12.9)	117 (4.7)	114 (4.4)	122 (3.9)	119 (0.9)	– (! 3.1)
Bonus (% change)	283 (11.3)	326 (15.3)	320 (11.8)	286 (10.5)	408 (5.2)	– (! 14.6)

Source: *ibid.*

There are other signals that wage reductions are likely to continue throughout the current year:

- according to the Ministry of Labour survey of establishments which had more than 100 employees and had concluded wage agreements, the agreed wage reduction was ! 0.1 per cent in January and ! 0.3 per cent in February 1998. The financial and insurance sector

recorded the largest wage reduction (! 6.7 per cent in January and ! 2.4 per cent in February 1998);

- the number of establishments which concluded agreements on wage freezes increased from 30 in January to 194 in February, with wage reductions agreed to in 12 establishments in February as compared to five in January;
- according to the Korean Labour Institute survey which was conducted in mid-January 1998, 77.5 per cent of the workers indicated that they were willing to accept a wage reduction if employers guaranteed job security; 53.3 per cent of these workers were prepared to accept a 10-19 per cent wage reduction.

The Minimum Wage Council fixes the minimum wage in September every year (the minimum wage represents about a third of the average wage, and less than 3 per cent of workers covered by pay protection earn less than the minimum wage). Since September 1997, there has been no adjustment in the minimum wage to date.

In line with the trend in wages, household income grew by only 0.6 per cent in the last quarter of 1997, the lowest rate since 1963. As a consequence, the inflation-adjusted real income fell by 4.4 per cent, the first drop since the third quarter of 1981.

Thailand

In Thailand, it is widely believed that downward flexibility in real and nominal wages has become relatively widespread. As in the Republic of Korea, annual bonuses are an important component of total wages. A 1996 Labour Ministry survey found that almost 45 per cent of employees across all industries receive an annual bonus. The actual amount varies across industries, with the commercial and financial sectors offering more substantial bonuses — five months' pay and more are not uncommon — than primary industry or manufacturing. Available evidence shows a substantial reduction in the annual bonus component of total earnings in 1997 over 1996, and it is anticipated that bonuses will be even smaller in 1998. One employer member of Thailand's National Wage Committee anticipates a 50 per cent reduction in the bonus in 1998. Estimates from various sources show nominal wages rising in 1998 at levels of 0-8 per cent. Wage increases are anticipated to be well below the forecasted rate of annual inflation in 1998 of about 15 per cent.

In addition, many enterprises have reduced nominal wages. Examples range across many sectors. One of the hardest hit in the current crisis has, of course, been the financial sector. Senior management in the financial sector have seen reductions in their monthly earnings of between 10 and 30 per cent (with a 20 per cent reduction, for example, at the Stock Exchange of Thailand). Lower-level employees have seen their wages frozen. Employees earning 10,000 baht per month and more at the Office of the Securities Exchange Commission have agreed to a reduction of 2-8 per cent in 1998.

The Labour Ministry has no recent comprehensive figures on wage trends — particularly with regard to their behaviour since the beginning of the crisis. It confirms, however, that wage reductions and reductions in annual bonuses have been common responses to the economic context, in addition to reductions in overtime work and reductions in the work week with proportionate cuts in earnings.

2.4. Changes in poverty levels

Republic of Korea

In the Republic of Korea, there are no recent data on income distribution and changes in poverty levels. However, the Korea Institute for Health and Social Affairs, which is the research arm of the Ministry of Health and Social Affairs, estimates that an additional 103,000

unemployed persons are likely to become recipients of the “livelihood protection scheme” of the Ministry.

Recipients of “livelihood protection” include the elderly who are unable to support themselves, children under 18, pregnant women, those who are incapable of working because of disease or mental and/or physical disability, other poor people who are qualified to be recipients of protection under the Livelihood Protection Act, and mothers with children under 18 and in need protection for themselves and their dependent children.

Although the Republic of Korea’s record of rapid economic growth had significantly reduced the number of people living under the absolute poverty line (table 2.14), there is now widespread concern that the current economic crisis will very likely reverse the trend.

Table 2.14. Absolute poverty ratio and Gini coefficients

	Poverty ratio I*	Poverty ratio II**
1975	20.04	21.52
1980	14.45	15.25
1985	14.22	18.50
1990	10.48	15.74
1995	7.36	8.47

* Inferred on the basis of urban household expenditure. ** Inferred on the basis of urban household income.

Sources: Current Poverty Issues and Counter Policies in Korea, unpublished paper by Chanyong Park and Meesook Kim, Korean Institute for Health and Social Affairs, and UNDP.

Indonesia

Despite Indonesia’s remarkable success in reducing poverty during the past two decades, some 22 million people were still living below the officially defined poverty line in 1996 (see table 2.15). Poverty in Indonesia remains a predominantly rural and agricultural phenomenon, the incidence of poverty being highest among self-employed and wage-earning farmers in rural areas. In the urban areas, wage workers in manufacturing, construction and services constitute the bulk of the poor.

Table 2.15. Percentage and number of population below the poverty line (1976-96)

	Percentage of population below the poverty line			Number of population below the poverty line (millions)		
	Urban	Rural	Urban + rural	Urban	Rural	Urban + rural
1976	38.79	40.37	40.08	10.0	44.2	54.2
1978	30.84	33.38	33.31	8.3	38.9	47.2
1980	29.04	28.42	28.56	9.5	32.8	42.3
1981	28.06	26.49	26.85	9.3	31.3	40.6
1984	23.14	21.18	21.64	9.3	25.7	35.0
1987	20.14	16.14	17.42	9.7	20.3	30.0
1990	16.75	14.33	15.08	9.4	17.8	27.2
1993	13.45	13.79	13.67	8.7	17.2	25.9
1996	9.71	12.30	11.34	7.2	15.3	22.5

Source: BPS: *Statistical Yearbook of Indonesia*, op. cit.

The present crisis may affect the poverty situation directly as well as indirectly. The direct impact can be gauged easily from the earlier discussion on unemployment and underemployment. Loss of jobs or a move to low-productivity work yielding lower income can easily push those who were already living close to the poverty line below it. This seems to be a distinct possibility for the millions who are likely to join the ranks of the unemployed (or underemployed) during 1998. And that, in turn, would imply the addition of a very substantial number to the 22 million who are already living below the poverty line. The poverty situation is also likely to be exacerbated through a fall in real wages of those remaining in employment. Women are highly represented among rural and urban poor workers. They are at greater risk and are more affected. Wage disparities between women and men, and proportionately lower wages for women, are likely to result in greater numbers of women than men falling below the poverty levels.

Inflation, especially a disproportionate rise in the price of food and other essential goods, will also aggravate poverty. Since the last quarter of 1997 increases in food prices have started to accelerate and exceed the rate of increase in the overall Consumer Price Index (CPI). Most recent official reports¹ indicate very sharp increases in overall inflation as well as in food prices. The year-on-year figure on general inflation for February 1998 is reported to have been 31.7 per cent. In February itself the overall inflation rate was 12.76 per cent, while the food prices index rose at a significantly higher rate of 16.07 per cent. Thus the classic mechanism of high food inflation leading to an increase in the incidence of absolute poverty appears to be already at work. This is illustrated by the fact that the rice equivalent of the daily minimum wage (Rp.5,800) fell from 6.28 kg in January 1997 to 4.76 kg at the end of December 1997.²

2.5. Increased fragility of social protection

The rise in unemployment, underemployment and poverty discussed in the preceding sections implies a sharp increase in the numbers in need of social protection. Yet social protection systems are relatively underdeveloped in the countries most affected by the crisis. The scope of protection provided was and, to a large extent, remains limited.

Women workers predominate in the informal sector in “irregular” forms of employment (homeworkers, temporary, contract-based labour). They are concentrated in small enterprises with fewer than five workers. These all are outside the coverage of social security systems. Therefore women are likely to be affected much more severely than men by the crisis and any subsequent austerity measures.

None of the countries except the Republic of Korea has an unemployment benefit scheme. Most do not even have a national pension scheme to provide protection for old age, invalidity and survivors. The compulsory savings or provident fund schemes which exist in several countries provide only very modest benefits in the form of a lump sum upon retirement. All of the countries have some kind of social health insurance scheme, but the benefits tend to exclude certain types of treatment and to leave a significant percentage of costs to be borne by the patient; in some countries, health-care benefits are provided only for the insured workers, not for spouses or children.

An even greater weakness of the social protection systems in the countries concerned is the small percentage of the working population which they cover. By and large, what social insurance schemes they have are compulsory only for employees; some offer voluntary coverage to the self-employed, but even where contributions are set at an artificially low level, very few of them opt to be insured. Generally, compulsory coverage applies only to enterprises with ten or

¹ Bureau of Statistics figures quoted in *The International Herald Tribune*, 3 Mar. 1998.

² These figures have been arrived at by using the average prices of medium quality rice reported in Bank Indonesia, *Weekly Report*, No. 2004, 23 Jan. 1998.

more workers, and in practice even many of these enterprises do not register with, or contribute to, the schemes. The Republic of Korea is more advanced than most, insofar as social security there applies to enterprises with five or more workers, but this still leaves well over 40 per cent of all employees unprotected. The Philippines also has a well established and relatively comprehensive social security system, with population coverage which in principle is very extensive indeed. The picture is marred only by the very low rates of compliance by wide sections of the economically active population supposedly covered by the system.

Even for the portion of the economically active population covered, the benefits are often far from adequate. For example, in the Republic of Korea, the health insurance system in practice covers less than 50 per cent of hospital costs on average. The lump-sum benefits provided by provident funds are not adequate to finance a replacement income in old age, or in the event of invalidity or death of the breadwinner, particularly in view of the small balances which members often have in their accounts (for example, in JAMSOSTEK, the national provident fund for employees in Indonesia, the average amount of balances is Rp.200,000 or about US\$22).

In view of the large gaps and inadequacies of contributory schemes, there is a great need for a government-financed safety net. Public hospitals and clinics usually have some arrangements to provide care, either on a free or subsidized basis, to people who are poor and without insurance. However, when it comes to providing income support, there is very little in the way of public or social assistance, except for the very old and seriously disabled who have no relatives to support them; as the able-bodied are excluded from receiving such support, social assistance does little to make up for the absence of unemployment insurance.

In several respects the crisis has rendered social protection systems even more fragile. As employment is cut back, most of those losing their jobs have little choice but to become active in the informal sector. Consequently, they lose the social security coverage which they may have enjoyed by virtue of their formal sector employment. This not only deprives them of current protection, for example in the event of sickness, but also prevents them from continuing to accumulate entitlements for their old age. Indeed, their security in old age may be further undermined: for example, in Indonesia, workers are allowed to withdraw their accumulated savings from the national provident fund if they are unemployed for six months.

The financial crisis has directly affected the performance of the investments of social security and provident funds. However, this effect has been much less dramatic than, for example, the huge falls in equity prices, since most of the funds are still obliged to invest a large proportion of their reserves in government paper. The rate of interest which provident funds will be able to pay on workers' balances in the next year or so seems likely to fall in real terms, as inflation gathers pace.

The higher rates of inflation which resulted from the financial crisis are affecting social protection in a number of other ways. Benefits which are calculated on the basis of previous wages are lower in real terms. The maximum level of earnings taken into account for the purposes of contributions and benefits is not automatically adjusted: the crisis is not only cutting its value in real terms, but may make the authorities more reluctant to increase it, as is required if the scheme concerned is to remain adequate and financially viable. Finally, health care is particularly affected by devaluation and inflation, given the widespread reliance on imported drugs and medical equipment: the adverse impact is felt both by the health insurance funds and by patients in the form of increased out-of-pocket expenditure. Declining access to health care and services impacts on women's child-bearing and child-rearing roles. They also have the greater responsibilities for the health care of their families and therefore any cuts in health budgets will increase their work burden.

Growing poverty and the decline in the number of people covered by health insurance will lead to increased demand for subsidized public health-care services; in Indonesia, for example,

it is projected that the numbers of people using these services will rise by 100 per cent in 1998 to 68 per cent of the population. Yet, with governments under considerable pressure to adopt a restrictive budgetary stance, it will not be easy to ensure that adequate resources can be made available to satisfy this demand. The Government in Indonesia is aiming to maintain the real value of public expenditure on health at pre-crisis levels, so that it will have to be spread much thinner than before. In such conditions it seems virtually certain that queues will get longer and the quality of service will suffer.

2.6. Women workers

Because of their unequal position in the labour market, and their ascribed roles in society, women are likely to be more adversely affected by the crisis than men. They are concentrated in the most precarious forms of wage employment and are thus more vulnerable to lay-offs. Women workers are also largely dispersed and unorganized and they are not easily reached by workers' organizations. Yet collective strength through organization is crucial for women, who often work under poor and exploitative conditions outside the reach of labour legislation.

These basic labour market vulnerabilities are often reinforced by sexist attitudes on the part of employers who regard women as secondary income earners and have used this as a pretext for dismissing them first when their enterprises are in crisis. Furthermore, women's gross underrepresentation at decision-making levels makes it more likely that gender-biased dismissal policies will be tolerated.

But greater vulnerability to dismissal is not the only problem that women face, serious though this is. Given their lower incomes many women will feel the pain of reduced earnings as a result of the crisis more sharply than men. This problem will be particularly acute for female heads of households who are also the sole income earners. This applies not only to women in wage employment, who face the danger of falling real wages, but also to those who are self-employed in the informal sector, where average incomes are also likely to fall.

Not only are women more vulnerable to the negative effects of the crisis, but they are also disadvantaged in terms of access to relief measures. Their inferior employment status often means that they are less likely to be provided with unemployment benefits, severance pay and other forms of social protection. Similarly, women may find themselves at a serious disadvantage in gaining access to credit and other employment promotion programmes.

There are few systematic data so far to permit a gender-disaggregated analysis of the impact of the crisis, but there is a growing body of anecdotal evidence, from women's sections of trade unions and NGOs, showing that gender-biased dismissal practices have emerged as a problem. These indications, together with the various *a priori* reasons for thinking that women will suffer more from the crisis that have been outlined above, make it imperative that all policies for coping with the social costs of the crisis be gender-sensitive.

2.7. Migrant workers

The impact of the crisis on the large number of migrant workers in the affected countries has been a special source of concern. Intra-regional migration grew rapidly during the last two decades as labour shortages emerged in the newly industrializing "tiger economies" of South-East Asia. At the beginning of the 1980s foreign workers in seven Asian countries and areas (namely Japan, the Republic of Korea, Malaysia, Singapore, Thailand, Hong Kong, China, and Taiwan, China) numbered just over a million, including long-term resident Koreans in Japan and Indonesians in Malaysia. By around the middle of 1997 there were over 6.5 million foreign workers in these countries. Table 2.16 shows the breakdown of this estimate by country of

employment and origin, where recent data are available. A large proportion of these migrant workers had an irregular status.

A large number of women workers in the region are engaged in domestic work and in the entertainment industry, while some are employed in manufacturing. However, there are no adequate data available currently to assess correctly the impact of the crisis on these workers.

Table 2.16. Estimated number of foreign workers in Asian labour-importing countries and areas, latest year available (thousands)

	Total foreign workers	Number of workers by country of origin (estimate of illegal migrants in italics)				
		Indonesia	Philippines	Thailand	China	Other Asia
Malaysia	2 500	755 + (1 000)	100 + (400)	79 + (33)	n.a.	305
Thailand	1 260	n.a.	5	n.a.	60	944*
Singapore	450	100	60	60	46	n.a.
Japan	1 354	n.a.	84 + (43)	18 + (39)	234 + (38)	680** + (88)
Hong Kong, China	n.a.	50	120	18	n.a.	39
Taiwan, China	297	9	84	138	21	n.a.
Rep. of Korea	210	15	23 + (15)	9 + (6)	28 + (49)	56 + (20)

* Mostly Burmese. ** There were some 680,000 registered Koreans in Japan.

The impact of the crisis on labour migration is expected to have several dimensions.

(i) *Reduced net immigration*

Levels of net migration to Malaysia, Thailand and the Republic of Korea will almost surely decline from an annual level of about 250,000 reached in recent years because of the slowing down of their economies and because of the immigration restraints imposed by their Governments. Although Singapore and Taiwan, China, have emerged relatively unscathed from the currency turmoil in the region it is likely that previous levels of labour immigration will not be maintained. Net annual flow of workers to Singapore and Taiwan, China, had reached about 30,000 and 40,000, respectively, in recent years.

(ii) *Return and repatriation*

Declining demand for labour will most probably bring down net immigration levels as new admissions will be cut down, but what will happen to the number returning is far from certain. Return will depend on many factors, including the degree to which wage differentials have been narrowed or widened by currency devaluations, measures taken by host states to expel illegals, expectations of how long the crisis would last, alternative employment opportunities at home, and the severity of penalties or sanctions imposed on illegal migrants. There is no certainty that those laid off, for instance, would simply pack up and go home.

It is easier to assess the potential returns by looking at the sending countries.

Indonesians: those working in the Republic of Korea (some 15,000) have already started to leave and head for home. There are no specific figures on returning Indonesians, but the authorities of the Republic of Korea claim that 14 per cent of all illegal foreigners left the country in the two months that followed the announcement of “no fines” for those leaving voluntarily. The Indonesian workers in Hong Kong, China (about 50,000), and in Taiwan, China (about 9,000), are not in immediate danger of losing their employment. Among those in Singapore, the return will probably be confined to male construction workers, who constitute no more than 10

per cent of the 100,000 estimated “stock” of Indonesian workers, some 60 per cent of whom are female domestic workers.

The main source of potential return is Malaysia, because of the sheer size of the illegal or undocumented Indonesian workforce in that country. If there are indeed some 1 million undocumented Indonesians in Malaysia and if the economic recession becomes deeper than it is today, one should expect a considerable return flow of workers to Indonesia. Many of the construction workers who make up about 25 per cent of the 755,000 legal or documented Indonesian migrants, plus many more from among the 1 million illegals, may have already lost their jobs on account of large cutbacks in infrastructure projects and the downturn in real estate investments. Over the next year or two there is likely to be a significant net return of Indonesian workers because of expulsions from overcrowded detention centres, the unwillingness of many to move to work in plantations, and the much stricter policing of their borders by the Malaysian authorities.

Thais: like the Indonesians, the Thais are not in imminent danger of being retrenched in Japan, Taiwan, China, and Hong Kong, China; but some of them are at risk of losing their jobs, if they have not lost them already, in the Republic of Korea, Malaysia and Singapore. There are about 60,000 Thai workers in Singapore, about 85 per cent of whom are employed in construction. In Malaysia there are over 110,000 Thais working in plantations, construction and services. The many working in plantations or services (female domestic workers) are not at risk, but for the 20,000 or so in construction, obtaining the renewal of their work permits when they expire will most probably be difficult.

Filipinos: only a small number of Filipino migrant workers are expected to return on account of the financial crisis, because the number of Filipino workers in the most severely affected countries is small. In the Republic of Korea there were about 23,000 legal and an estimated 15,000 illegal workers in mid-1997, most of whom were employed in small-scale industries; and in Thailand, about 5,000, consisting mainly of professionals (engineers, managers, accountants, etc.) and entertainers. In Indonesia there were only a few hundred Filipinos employed as middle- to high-level managers.

Burmese workers in Thailand: there are some 1.2 million workers estimated to be working in Thailand, about 944,000 of whom are undocumented or illegal. About 85 per cent of these workers come from Myanmar, while another 5 per cent come from Cambodia and the Lao People’s Democratic Republic. A recent survey showed that they are evenly spread out among the border areas, the coastal areas, and the urban centres. The Thai authorities have recently announced measures to expel illegally employed foreign workers and there has been a sharp rise in the numbers of illegal foreign workers kept in detention centres.

Cursory impressions suggest that many of the Burmese workers in Thailand, such as the 300,000 working in Thai coastal fishing, would be unlikely to opt to return voluntarily, since alternatives at home are equally bleak. At the same time, there is some resistance on the part of the authorities of Myanmar to accept them back. Many of them are Karen who have opposed the Government of Myanmar for many decades, and in the eyes of the authorities it would be better if they stayed outside rather than inside their borders.

South Asian workers: among those at risk of repatriation are many undocumented migrant workers in Malaysia, the Republic of Korea and Thailand who come from South Asia. Bangladeshis comprise the largest group. In Malaysia some 124,000 came in legally for work between July 1992 and January 1997, but perhaps as many more are undocumented workers who were smuggled in through the Thai border. Indians, Pakistanis and Sri Lankans who were admitted legally during that period together numbered only about 6,000. In Thailand the number of South Asians also totals a few hundred thousand, but there are no official reports that detail their nationalities.

(iii) Increased emigration pressures

With declining employment opportunities at home, and increasing inter-country wage differentials (because of the different rates at which currencies have depreciated) there could be a build-up of emigration pressures in one or more of the worst-affected countries. The new emigration pressures may still manifest themselves in the form of larger clandestine flows than before. It is already being anticipated that trafficking in clandestine labour migrants will rise as a consequence. A case in point is the recent increase in clandestine labour migration from Indonesia to Malaysia and Singapore. A rise in clandestine migration will entail heavy private and social costs, both in the countries of origin and those of destination, without really providing avenues for gainful absorption of aspiring migrants. This emerging problem calls, at the very least, for joint and cooperative action on the part of the governments of the countries of origin and destination.

3. Policies to contain the social costs

3.1. Introduction

This chapter will review the policies and programmes that have been adopted to contain the social costs of the economic crisis in the three most severely affected countries. The focus will be both on the adequacy of policies and programmes that are already in place and/or additional measures that are feasible and could be usefully introduced in the near term.

The chapter begins with a brief discussion of the stabilization and reform measures that have been adopted under the agreements that all three severely affected countries have concluded with the IMF. This is followed by a description of efforts that have been undertaken to moderate the extent of crisis-induced lay-offs in these countries. This issue is of special significance in the Asian crisis since, as discussed in Chapter 1, there is a real danger that the overshooting in market reactions since the onset of the crisis will cause many otherwise fundamentally sound enterprises to go under. The underlying reasoning is that alternatives to lay-off and liquidation, such as reduced working time, work-sharing, and negotiated wage cuts, can buy valuable breathing space for viable enterprises to ride out the — hopefully temporary — shock of excessive currency depreciation, falls in asset prices and disruptions in financial intermediation.

This is followed by a discussion of measures to assist displaced workers. Except in the Republic of Korea, there has been no capacity or experience in implementing active labour market measures of the type common in industrialized countries. The main instrument available in these countries is some form of direct employment creation scheme. These include labour-intensive public works schemes and credit schemes to promote self-employment and enterprise development. Such schemes have been used in the past as part of poverty alleviation programmes, mainly in rural areas. The critical issue in the present crisis is whether they can be scaled up sufficiently and soon enough to cope with the vastly greater numbers that are likely to be in need of such relief. This is a formidable challenge, since there are both financial and institutional capacity constraints to doing so.

Given the serious constraints to a rapid expansion of direct employment creation measures, attention has to be given to income replacement measures to relieve the most acute social distress. The next section of this chapter therefore discusses issues such as the role of social assistance and measures to improve the access of the poor to food and health care.

The chapter then discusses the varying extents to which social dialogue and tripartite cooperation have so far played a role in containing the social costs of the economic crisis and in defusing the danger of social unrest. Lastly, it looks at the effects of the crisis on the situation of migrant workers and suggests policy responses.

3.2. Economic policies

The economic policy response to the crisis so far has been the subject of controversy. One issue is the appropriateness of the response prior to the conclusion of agreements with the IMF by the Republic of Korea, Indonesia and Thailand. It is argued that, especially in the case of Thailand, there was an attitude of denial to the impending crisis and that danger signals such as a large current account deficit and an asset price bubble were ignored. Similarly, when the crisis spread to Malaysia the initial focus was on attacking foreign scapegoats instead of dealing with the crisis. As discussed in Chapter 1, this was part of the deficiencies in domestic policy which contributed to the onset of the crisis. But it also has to be recognized in mitigation that there were new elements in the nature of the crisis that virtually no one foresaw.

The heart of the controversy, however, is over the policies that have been adopted in the worst-affected countries after the conclusion of agreements with the IMF. A common criticism

of these programmes concerns the need for the fiscal tightening that has been included in them. Critics have argued that, given the huge deflationary shock caused by the massive outflow of capital, fiscal tightening was a perverse response. It was also unnecessary in view of the low levels of government debt in these countries and the fact that the balance of payments deficits had not been caused by loose fiscal policy in the first place. Some critics have argued that what is required is stable or even expansionary fiscal and monetary policy. The underlying view is that this would bring about an early restoration of high growth that would soon ease the debt-servicing burden and minimize adverse effects on the domestic economy. Others have also recommended avoiding fiscal tightening on the grounds that it is necessary to allow room for an essential tightening of monetary policy in order to stabilize currencies. Against this the IMF has maintained that the recommended fiscal tightening has been slight (1.5 percent of GDP in the case of Thailand) and is necessary to pay for the cost of restructuring the financial sector. It has also stressed that it has adopted a flexible attitude to these fiscal targets and that they have indeed been loosened when the economic downturn proved to be more severe than anticipated.

A similar debate has emerged over the extent to which monetary policy should be tightened and interest rates raised. The IMF position is that a significant rise in interest rates is necessary in order to restore confidence in currencies which have suffered massive depreciations. While acknowledging that this will impact negatively on the large number of domestic firms with high debt, the IMF argues that this is a lesser evil than a failure to stabilize currencies. The reasoning behind this is that with large numbers of firms carrying high levels of foreign short-term debt in these countries, an easing of their debt burden through a recovery of the exchange rate will do more to minimize insolvency than the maintenance of low interest rates. Moreover, the rise in interest rates need only be temporary since it can be reversed once confidence is restored in the currency market.

Critics, however, point out that this prescription does not appear to have worked; the substantial rise in interest rates in Thailand and Indonesia has not so far had the desired effect of restoring confidence in their currencies, especially in the latter country. The explanation offered for this is that high interest rates are not sufficient to compensate for the perceived rise in credit risks on the part of lenders to these countries. They may, instead, exacerbate fears that the exchange rate will weaken even further if it is perceived that they are not sustainable.

The last major area of controversy is over the structural reforms that have been prominently embedded in the agreements with the IMF. These involve the immediate problem of restructuring or closure of insolvent banks and other financial institutions, as well as institutional reforms such as strengthening regulation of the financial sector, instituting effective bankruptcy laws, increasing the transparency of corporate governance, and liberalizing laws limiting foreign ownership in the corporate and financial sectors of the economy. These structural reforms are seen by the IMF to be critical requirements for the restoration of international market confidence in these economies and hence for their recovery.

There have been two main strands of criticism to this approach. The first has questioned the wisdom of making these structural reforms an integral part of what should have been essentially stabilization packages. Some have argued that the focus should have been squarely on “life-saving core economic issues” rather than diluting it by introducing inherently difficult and time-consuming issues of institutional reform. While not questioning the need for such reforms, they stress that the timing is inappropriate. This is joined by a related political economy argument that by front-loading difficult reforms within the policy package the IMF may have pushed the process beyond an optimal level of conditionality. Given the political fragility in some of these countries such a tough reform line may ultimately prove counter-productive since it is beyond the capacity of governments to implement.

The second strand of criticism of these structural reform measures springs in large part from nationalist and populist sentiment. A major grievance concerns the liberalization of laws relating to foreign ownership in the financial and corporate sectors. This is seen as an exploitation of the

current weaknesses of these countries by major powers, a perception that is heightened by the fact that equity prices have collapsed dramatically in the wake of the crisis. The latter implies that foreign purchases of national assets are being made at distress prices and hence unfair. The upshot would be a loss of national ownership and control over key sectors of the economy that would reduce future policy autonomy.

A key consideration in evaluating this second strand of criticism is a judgement over the extent to which current asset prices reflect the fundamental worth of companies in distress. While there was certainly overvaluation until the crisis, there are also grounds for thinking that the over-reaction in currency and equity markets referred to earlier makes this a bad time to sell. At the same time, however, it has to be recognized that this may be the only alternative to going under. The choice may simply be between accepting more foreign ownership and losing the enterprise altogether to the national economy. Besides, an increased inflow of foreign direct investment will contribute to overcoming the crisis by injecting badly needed capital as well as the technology and managerial skills necessary to strengthen the corporate and financial sectors. But in order to realize the latter benefits it will be important to promote sales to foreign buyers that are really more efficient than alternative local investors.

There is no simple way of resolving this debate. A fundamental problem is that of the counterfactual. The potential effects of alternative policies advocated by critics cannot be verified until they are actually applied in the current crisis situation. They may have as strong analytical arguments in their favour as the policies that are being currently being pursued but, as pointed out earlier, the current Asian crisis has several new and poorly understood elements. The issue cannot therefore be confidently resolved on a *priori* grounds.

But this is not to say that arguments for alternative policies should be ignored. They constitute, as it were, “shadow policies” that could be seriously considered should parts of current policies fail to yield their anticipated results. In situations where professional opinion is seriously divided and where there is a high degree of uncertainty, as is the case in the current situation, a greater than usual degree of flexibility in policy implementation would be in order. Close monitoring of the unfolding effects of current policies and a willingness to change course when warranted would clearly be desirable. And, in that monitoring, the impact of policies on the level of unemployment and social costs should be a prominent consideration. In particular, at least temporarily increased social spending may be unavoidable if countries are to undertake credible efforts to alleviate the gravest social consequences of the crisis.

3.3. Saving viable enterprises: Adjustment at the enterprise level

There have been a number of initiatives to minimize the extent of lay-offs as a result of the crisis as well as to save viable enterprises facing temporary liquidity crises through cooperative action between workers and employers. In the Republic of Korea, agreement was reached under the Tripartite Accord that “employers will do their best to put an end to illegal lay-offs and unfair labour practices to stabilize employment. Trade unions will make positive efforts to improve a firm’s competitiveness and enhance productivity and quality in order to stabilize employment. Labour and management will make efforts to settle harmoniously labour disputes at the company level, to put an end to unfair labour practices, and to promote labour-management cooperation by jointly establishing a *Centre for Labour-Management Cooperation Support*.”

Despite this encouraging language, however, there remains strong suspicion among the rank and file that employers could take unfair advantage. The sentiment is strongest among employees in bankrupt companies. In fact, local unions in insolvent companies led opposition against the leadership of the Korean Confederation of Trade Unions (KCTU) that had agreed to lay-off provisions in the Accord. There are, in addition, many reports of unfair labour practices since the beginning of the crisis.

Nevertheless, on the positive side, there has been an increase in the number of establishments and unions which have jointly declared the objective of labour-management cooperation. A Ministry of Labour survey recorded 194 such declarations as of the end of February 1998, compared with only four a year earlier.

A survey conducted by the Federation of Korean Trade Unions (FKTU) gives evidence of efforts undertaken to find alternatives to lay-offs. Of the 400 enterprise union leaders surveyed, 58.8 per cent responded that “while the inevitability of lay-offs cannot but be acknowledged, trade unions are making efforts to avoid lay-offs through Labour-Management Councils”. Table 3.1 records measures taken.

Table 3.1. FKTU survey of alternatives to lay-off

Alternative to lay-off	Percentage of cases in which used
New recruitment freeze	52.3
Early retirement	17.4
Working hours reduction	14.0
Rotating unpaid leave	3.4
Transfer to affiliated firm	2.6
Secondment to subcontracting firm	2.6
Temporary lay-off	1.3

The survey also showed that 45.2 per cent of the unions were willing to accept a wage freeze, and another 3.4 per cent a wage reduction, if employers would guarantee employment security.

It can be said that enterprise unions have been unable, in any broad way, to negotiate alternatives to lay-offs or to mitigate their social costs owing to factors such as unstable union leadership, union avoidance strategies by employers, and the narrowly focused bargaining strategy of the enterprise union itself. There are nonetheless indications that most trade union members would be willing to accept redeployment within the enterprise or a wage reduction if the *chaebol* owners made sincere efforts to reform their businesses and avoid lay-offs. Even some militant unions have initiated campaigns to revive their companies through the purchase of company shares. These may be in the minority, however: many unions appear to have been bypassed by employers in the process of restructuring.

In Thailand, the position paper of the labour federations participating in the November National Tripartite Forum articulates the trade unions’ demand that employers not take advantage of the present circumstances. As in the Republic of Korea, the Thai social partners agreed in the Forum that: “mass lay-offs were inevitable, but every effort should be made to keep these to a minimum, in the first place, through negotiation, and through any other means such as adjustment of hours of work or wages or other production costs. In any event, mass lay-offs should be the last resort. The law should be strictly enforced to ensure that workers who are laid off, or who are laid off as a result of the insolvency of enterprises, receive all the legal benefits to which they are entitled.”

However, compared to the case of the Republic of Korea, one marked difference is the underdeveloped formal framework for dialogue at enterprise level. Thai labour legislation provides for two main channels through which labour-management dialogue on adjustment could occur. One is through collective bargaining at workplaces in which a trade union has been recognized. The meagre level of workplace organization in Thailand means that collective bargaining, were it to bear fruit at all in finding solutions to lay-offs, would apply to a narrow minority of the Thai workforce.

The other formal channel is labour-management dialogue through Employee Committees (ECs) in enterprises employing more than 50 persons. To date, however, ECs remain underdeveloped, existing in only 500 enterprises.

The simple conclusion to draw is that the institutional apparatus through which dialogue on the consequences of enterprise-level adjustment could occur is just not in place in Thailand. Of course, the absence of the sort of formal mechanisms for dialogue provided for by labour law does not necessarily mean the absence of dialogue — or, further still, the absence of good, cooperative labour-management relations. Recent research in Thailand and elsewhere has documented the existence of well-developed, cooperative labour-management relations in some non-union enterprises. But evidence also suggests that such examples are (i) likely to be in the minority, and (ii) slower to diffuse in the absence of a well-developed trade union movement.¹

There is no comprehensive empirical record of the extent to which firms have had recourse to any alternatives to lay-offs or have engaged in formal or informal dialogue with their workforces over adjustments. Thailand's leading employer confederations state that the search for alternatives to lay-offs is common practice among their member firms. The Ministry of Labour and Social Welfare (MOLSW) has also taken a proactive stance in (i) urging firms to delay lay-offs by finding alternatives; (ii) requesting that firms first notify the Ministry *prior* to the intent to lay off, so that alternatives could be considered first or, failing these, adequate outplacement services (retraining, job search) could be arranged under MOLSW's auspices; and (iii) seeking to intervene itself prior to recourse to lay-offs.

With the onset of the crisis, MOLSW created 15 teams of Ministry officials which have attempted to assist enterprises in Bangkok and in the neighbouring industrialized provinces in finding alternatives to lay-offs. Since then, the teams have visited nearly 1,000 firms to date. MOLSW has prepared a booklet outlining ways in which labour and production costs could be adjusted to avoid lay-offs. Finally, MOLSW has hosted three tripartite seminars in an effort to diffuse knowledge on ways in which employment can be preserved. The Ministry initiative will continue as part of the Government's seven-measure programme to address the crisis. While the Ministry's initiatives are clearly positive, there is no information available on their impact.

The extent to which alternatives to lay-offs have been broadly used in Indonesia is unknown; whether such alternatives have been the subject of prior dialogue or consultation with the workforce and its representatives is equally uncertain. What is known, however, is that with the rise in lay-offs, the Federation of All-Indonesia Trade Unions (FSPSI) (the official trade union federation) set up a team to consult with and assist companies contemplating mass dismissals. The team also provides legal assistance to workers who are facing dismissal. The team's main objective is to promote the search for alternatives to lay-offs through the reduction of working time, the elimination of overtime, alternating work shifts, cutting production costs and alternating home rest periods. The Indonesian Employers' Association (APINDO) is also providing a range of similar advisory services to its members. In addition, it is trying to monitor the incidence of lay-offs through its network of 27 provincial offices.

An additional factor impeding the development of social dialogue at the enterprise level in Indonesia is the fact that the unions themselves have been weakened by the loss of membership resulting from lay-offs. The Indonesian Prosperity Trade Union (SBSI), for example, has seen a reduction in its already limited resources and is unable to monitor the rate of lay-offs involving its own members.

While there are positive examples, it is unlikely that the search for alternatives to lay-offs is a widespread practice at present. For many enterprises, there are economic reasons for this arising from the gravity of the crisis itself. Another reason, however, is that the ways and means

¹ See ILO: *World Labour Report 1997-98: Industrial relations, democracy and social stability* (Geneva, 1997).

of building labour-management trust and strong workplace cooperation are not deeply institutionalized.

3.4. Policies and programmes to assist displaced workers

Republic of Korea

In the Republic of Korea, the Government originally allocated about 5 trillion won to the labour market budget for 1998. At the end of March, Parliament increased the allocation to 8 trillion won. It is questionable, however, whether the additional resource allocation will actually be available this year. Almost 50 per cent of the original budget is geared towards unemployment benefits and other income support programmes for the unemployed. Job creation measures account for about 20 per cent of the budget. The remaining 30 per cent is divided between training programmes, subsidies for enterprises to maintain the level of employment and support for the development of employment services, the latter being the smallest programme (representing only about 3.5 per cent of the total budget).

A summary of the main policies and programmes that have been introduced by the Government of the Republic of Korea to assist unemployed workers is presented in table 3.2. These measures vary according to whether the unemployed are job losers or first-time jobseekers and whether the job losers are covered by the Employment Insurance System.

The Republic of Korea has a well-developed network of employment services, which consisted of 1,875 agencies in 1996 (52 national, 285 public and 1,538 private). Burgeoning unemployment since November 1997 has posed major challenges to the employment services. Firstly, the existing staff are less and less able to handle the ever-growing number of clients. Secondly, the public employment service, which deals with both placement services and the administration of unemployment benefits, is under increasing pressure to extend its services, especially for guidance and counselling.

The 1998 labour market policy package includes measures to (i) strengthen public employment services; (ii) develop a nation-wide computerized employment information system; (iii) support trade unions to set up their own placement services; and (iv) develop manpower banks. The Government will set up about 20 additional public employment offices and increase the staff, especially vocational guidance counsellors. By the end of 1998 the number of manpower banks is expected to have increased from four to 20.

In the context of growing unemployment and expected large-scale lay-offs, the employment services appear to be the weakest component of the current labour market policy programme. They receive a relatively small portion of the labour market budget allocation. Yet the role of employment services is critical in facilitating and accelerating employment and labour market adjustments.

Another major programme that has been adopted is job creation for the unemployed. This includes four new schemes:

- C a programme offering start-up loans for unemployed professionals and managers to set up their own ventures or small firms to create new jobs. In terms of allocated resources, this is the largest programme;
- C a programme targeting job creation in existing small and medium-sized enterprises. This programme provides loans for job creation and for improving working conditions with the aim of attracting nationals to replace the foreign workers who currently hold many of the "dirty, difficult and dangerous" jobs in these enterprises;
- C a programme to offer start-up loans for the unemployed covered by the Employment Insurance System (EIS), so that they can become self-employed; and

- C a programme to create temporary job opportunities in public works for those long-term unemployed who are outside the scope of the unemployment benefits system. This programme is expected to create 50,000 temporary jobs in the public sector.

Table 3.2. Summary of the 1998 policy and programme measures for the unemployed

	Covered by the Employment Insurance System	Not covered by the Employment Insurance System
Job losers	<p><i>Total forecast for 1998:</i> 694,000 persons</p> <p><i>Total allocated resources for 1998:</i> 2.1528 trillion won</p> <p><i>Unemployment benefits:</i> Coverage: 439,000 persons Resources: 1.2028 trillion won</p> <p><i>Retraining:</i> Coverage: 80,000 persons Resources: 135 billion won</p> <p><i>Loans for livelihood, health, education, housing costs:</i> Coverage: 150,000 households Resources: 800 billion won</p> <p><i>Public works:</i> Coverage: 25,000 persons Resources: 15 billion won</p>	<p><i>Total forecast for 1998:</i> 197,000 persons</p> <p><i>Total allocated resources for 1998:</i> 1.1219 trillion won</p> <p><i>Employment promotion training:</i> Coverage: 10,000 persons Resources: 5.7 billion won</p> <p><i>Training for farmers:</i> Coverage: 2,000 persons Resources: 1.2 billion won</p> <p><i>Training and start-up loans:</i> Coverage: 10,000 persons Resources: 300 billion won</p> <p><i>Loans for livelihood, health, education, housing costs:</i> Coverage: 150,000 households Resources: 800 billion won</p> <p><i>Public works:</i> Coverage: 25,000 persons Resources: 15 billion won</p>
First-time jobseekers		<p><i>Total forecast for 1998:</i> 115,000 persons</p> <p><i>Total allocated resources for 1998:</i> 773.8 billion won</p> <p><i>Employment promotion training:</i> Coverage: 40,000 persons Resources: 22.8 billion won</p> <p><i>Training institutions:</i> Coverage: 4,000 persons Resources: 6.7 billion won</p> <p><i>Training for low-educated youth for labour shortage occupations and industries:</i> Coverage: 21,000 persons Resources: 44.3 trillion won</p> <p><i>Job creation through new ventures, self-employment, etc.:</i> Coverage: 50,000 persons Resources: 700 billion won</p>

Note: The following measures have not been included: Job security measures, support for enterprises to sustain employment, employment promotion for potential manpower, skill enhancement training for employees, and support for strengthening employment services and labour market administration. The total allocation for such measures in 1998 is 953.6 billion won.

Source: Ministry of Labour's Report to the National Assembly, Feb. 1998.

Although the fourth programme is supposed to be a temporary measure, its value should not be overlooked. Experience in many other countries has shown that well-organized public works can provide the unemployed with worthwhile jobs while helping the community through sponsorship of projects that respond to local needs. A public works programme can be more cost-effective than other employment creation measures. Table 3.2 showed that the public works programme will cover a much higher number of unemployed at considerably lower cost than the other proposed employment creation programmes. It might be worth giving consideration to a more balanced budget allocation for the different types of employment creation programmes.

Training and redeployment policies have also been introduced. The Republic of Korea has a well-developed vocational training system, consisting of about 500 public, private (non-profit)

and company-based vocational training institutions. The system trained over 300,000 persons in 1997. The challenge for the country, then, is not the lack of appropriate training facilities but rather the need to redirect training programmes to the new circumstances and to ensure that the training is effective in helping job losers to move away from declining sectors to those with emerging opportunities.

In considering priorities for training policies, some of the main issues to be addressed are: how much training will be needed, in what areas, and how can large-scale training programmes be implemented effectively? In its 1998 employment policy package, the Government has provided for the expansion of vocational training opportunities so that more than 200,000 unemployed can receive training/retraining during the year. Some of the new training schemes have been designed to address the needs of specific groups — they focus on business education; vocational conversion; training for low-skilled, low-educated workers; re-employment orientation; adaptation training for newly recruited, long-term unemployed; and employment promotion training. For those who are not yet unemployed but are expected to lose their jobs, subsidies are also available for vocational conversion training and training for starting up businesses — such programmes are especially helpful in providing the necessary skills and knowledge to equip workers for entering new employment before they actually lose their current jobs.

To facilitate the access of the unemployed to temporary job opportunities, Parliament passed the Act on Dispatched Workers in February 1998. Under the Act, employment agencies may recruit workers and dispatch them to enterprises that require temporary workers with special knowledge or experience, workers to fill temporary vacancies associated with illness or maternity leave of the regular workforce, or workers to meet irregular production needs. The Act guarantees protection to such workers who are dispatched by employment agencies for temporary jobs. At the same time, the Act provides for the right of company unions or other workers' representatives to be consulted on the use of such temporary dispatched workers in their enterprises.

Indonesia

Indonesia has for some time had a number of programmes of direct intervention aimed at poverty alleviation. The experience acquired in implementing such programmes, including the institutional framework, can be fruitfully utilized to undertake emergency measures for employment creation for the poor during the current crisis.

A substantial part of government expenditure is usually allocated for infrastructure; and the use of labour-intensive methods can maximize the employment potential of such investment. In 1994-95, under the village infrastructure project¹ in Java, more than 5 million workdays of employment were created. There is also potential for employing labour-intensive methods in creating and upgrading urban infrastructure, as demonstrated by the Kampung Improvement Programme (KIP), which is applied to densely populated, poor urban neighbourhoods. Both the village infrastructure programme and the KIP have potential for substantial expansion. Indeed, the Government has already initiated a crash programme of Rp.33 billion for urban and semi-urban areas for the first three months in 1998. This programme is intended to create approximately 4 million workdays of employment, equivalent to 80 days of employment for 54,000 persons. For 1998-99, allocations of Rp.600 billion and Rp.500 billion have been made for labour-intensive infrastructure (in rural and urban areas) and labour-intensive forestry. This

¹ This is part of the Inpres Desa Tertinggal (IDT) Programme or presidential instruction programme for villages that are left behind. IDT is in fact a kind of social fund consisting of credit for self-employment and allocations for labour-intensive infrastructure.

allocation should be able to generate about 103 million workdays of employment, or an average of 80 days of employment for approximately 1.3 million workers.

Apart from labour-intensive public works, targeted credit for self-employment could also be stepped up. Indonesia has achieved considerable success over the past decade with several unsubsidized rural credit programmes. Bank Rakyat Indonesia (BRI), for example, has an outstanding loan of some Rp. 4.5 trillion to 2.5 million borrowers. In addition to maintaining the Unit Banking System, BRI supervises about 5,300 village credit units (BKDs) which provide very small loans to about 800,000 low-income people in their villages. The bank has a credit: deposit ratio of 1:2, and operates on a self-sustained basis. More than 60 per cent of its loans go to rural areas. Micro-credits for self-employment have the added advantage that women can benefit from them more easily than from employment in infrastructure construction. Clearly, the BRI micro-credit programme has scope for further expansion, as the current growth (10 per cent) in loans is lower than in earlier years.

Micro- and small enterprises, especially those not requiring imported inputs, have not yet been hit by the current financial and economic crisis. Indeed, there is a stronger case for promoting their growth at this critical juncture. And micro-credit can play an important role in this regard. Programmes like that of BRI should therefore receive special encouragement for expansion.

Thailand

The effects of the crisis were to some extent mitigated in 1997 by rising government expenditure. In real terms this was some 18-19 per cent higher in 1997 than in 1996. Unfortunately a fall in real terms of some 12 per cent is expected in 1998 (to some US\$21,400 million at constant 1996 dollars). Promised additional loan disbursements by the World Bank or the Asian Development Bank (ADB) of a few hundred million US dollars in 1998 will do little to compensate for this fall, which inevitably affects employment, especially in construction. Cuts in government expenditure in 1998 amount to 20 and 16 per cent, respectively, for the Ministry of the Interior and the Ministry of Agriculture and Agricultural Cooperatives, both of which have extensive community development programmes. Health and education will each be cut by approximately 6 per cent. In the face of this there can be little funding for the national action plan to alleviate unemployment problems (December 1997). This proposes support for self-employment, greater use of labour-intensive technology, the repatriation of an estimated 200,000 illegal immigrants and encouragement for Thais to work abroad, with an annual target of 100,000.

Given the Government's financial constraints, it is all the more important that outside assistance be well targeted. To mitigate the social impact of the crisis, the Government has obtained concessional loans from the Asian Development Bank and the World Bank for a Social Sector Programme and a Social Investment Project, respectively. On March 12, the ADB approved a loan of US\$500 million to the Thai Government to provide balance of payment assistance in return for the Government's commitment to certain policy measures in three social policy fields — labour market and social welfare, education and health. In view of the IMF's relaxation of budgetary requirements for Thailand, it is thought that perhaps half of the US\$500 million loan will directly support the Social Sector Programme. The Programme will be implemented over four years. An initial tranche of US\$300 million has already been released. The second tranche of US\$200 million will be released in ten to 12 months.

In the area of labour market and social welfare measures, the policy priorities supported by the ADB loan are the establishment of several Centres for Assistance to Laid-Off Workers (CALOWs), which would act as "one-stop" service centres providing training referral, counselling and placement services; the extension of social security coverage to laid-off workers (coverage would be extended for six months after lay-off for medical care and maternity,

disability and death benefits); to limit the minimum wage increase in 1998 in order to improve the competitiveness of the labour force, and to engage in a review of labour policy in general and minimum wage policy in particular; to give greater protection to the poor in rural areas by instructing line ministries to disaggregate to the provincial level according to the incidence of poverty in the provinces; and, finally, to simplify the procedures by which private enterprises can receive tax deductions for investing in the vocational training of their workforce. Among these policy priorities, the one relating to the limitation of the increase in the minimum wage in 1998 is a cause for concern from an ILO standpoint. Given recent sharp increases in food prices, especially of rice, it is important to preserve the real value of the minimum wage as a means of protecting low-paid workers.

As to the World Bank's Social Investment Project loan, it is anticipated that in June the World Bank will approve a loan of US\$430 million to the Government of Thailand. About US\$250 million of this loan would be used to supplement ongoing government programmes in the areas of health care, education and environmental support. The supplement is intended to make up for government cutbacks resulting from the current fiscal constraints. Funding for ongoing government programmes also includes those that address unemployment, the promotion of rural industries and labour-intensive public works, as well as expanded vocational training. The remainder of the loan — about US\$180 million — would be used to set up a Social Investment Fund and to generate new urban development programmes. The Social Investment Fund would be channelled through the branch network of the Government Savings Bank and be used to provide funds and technical assistance for community-oriented projects to supplement community needs. These projects (and fund dispersal) would be undertaken by community-based organizations. Employment creation is one objective of the Social Investment Fund. Employment creation for the entire US\$430 million loan could benefit approximately 100,000 persons, according to the World Bank.

Apart from these, there have been other, minor initiatives with very little impact. So far, for example, the Government's baht 10,000 loan scheme has been extended to displaced workers. In the current fiscal year provision has been made for 650 loans and so far 350 have been disbursed (the publicity given to the scheme far outweighs its scale). In addition, a baht 2,000 grant scheme for groups of up to ten persons involved in group-based income generation, with an annual budget of baht 60.2 million, has had a 0.75 per cent take-up rate.

The Department of Public Welfare (DPW) has responsibility for looking after underprivileged target groups, including people with disabilities, women, the elderly, children and beggars. DPW reports that it has seen a sharp increase in the numbers of socially excluded, which gives some indication of the social dimensions of the crisis. DPW manages the baht 2,000 grant scheme, as well as the baht 10,000 loan scheme, under which one day of enterprise training is provided for borrowers.

3.5. Social protection

Measures to provide the unemployed with some kind of income support are vital, not only for those directly concerned, but also to preserve the fabric of society and to maintain the labour force in readiness for the economic upturn. Active measures, including emergency employment creation schemes and labour redeployment schemes, have already been discussed. These are often deemed superior to so-called "passive" measures which seek merely to provide the unemployed with a replacement income. However, it should be borne in mind that the availability of a temporary replacement income does also make a positive contribution to securing the productive employment of labour: it relieves the pressure on the unemployed worker to accept the first job that comes along and allows time to find one which will make good use of his or her skills and experience. Moreover, active measures are subject to a number of constraints. The budgets available to finance them are limited, and the costs of active measures per unemployed

worker are typically higher than the cost of benefit alone, as they also include the costs of equipment, materials and project administration. Employment creation measures are also constrained by the need to avoid unfair competition with regular private sector activity and non-subsidized employment. Indeed, as we have seen in the previous section, these employment creation schemes can provide income support for only a fraction of those who have lost or will be losing their jobs during the present crisis. There is thus a great need for other forms of temporary income support.

However, only one unemployment benefit scheme exists in the countries most directly affected by the crisis. This is the scheme which was implemented in the Republic of Korea on 1 July 1995 under the terms of the Employment Insurance Act adopted in 1993. While its existence does not owe anything to the present crisis, the crisis has had a major impact on it, by stimulating the social partners to agree on an exceptionally rapid expansion and improvement of the scheme early in 1998. This was part of a quid pro quo conceded by the Government and the employers in order to obtain the agreement of the workers' organizations to legislative changes designed to facilitate lay-offs in specified circumstances.

The scheme is financed by a contribution equal to 0.6 per cent of total payroll, shared equally between employers and workers. The Act fixed at 1.5 per cent the maximum total contribution which could be levied for all the components of the Employment Insurance System (which also includes a large number of active labour market policy measures). Parliament has very recently revised that maximum upwards to 3 per cent of payroll, with effect from 1 March 1998, though the actual contribution rates at that time remained as before: 0.9 per cent for small firms, 1.1 per cent for medium-sized firms and 1.3 per cent for large firms. (It is the training component of the system which accounts for the differences in contribution rates.) As the scheme is able to draw on its reserves, it will be able to finance increased benefit expenditure for a certain time before having to increase the contribution rate.

The unemployment benefit is 50 per cent of the worker's earnings during the month before becoming unemployed. The maximum benefit is W35,000 per day, which means that in calculating benefit no account is taken of earnings in excess of W70,000 per day. The latter amount is well above national average non-agricultural earnings, which in 1997 were W1,463,000 per month or W48,767 per day (assuming 30 days in a month). With effect from 1 March 1998, the minimum benefit was raised from 50 to 70 per cent of the minimum wage. As the minimum wage for the period September 1997 to August 1998 was set at W11,880 per day, the minimum unemployment benefit increased from W5,940 to W8,316. As the minimum wage is about 25 per cent of non-agricultural average earnings, the minimum unemployment benefit is just under 18 per cent of average earnings.

The unemployment benefit scheme thus allows for some vertical redistribution of income: on the one hand, by having a maximum benefit but no maximum contribution and, on the other hand, by having a minimum benefit which provides workers at or near the minimum wage with a higher rate of income replacement than others (though most workers earning as little as that are said to work in small enterprises not covered by the scheme).

The duration of unemployment benefit depends both on the length of the period insured and on the person's age upon becoming unemployed, as shown in table 3.3.

Table 3.3. Duration of unemployment benefit entitlement (months), Republic of Korea

Period insured	1-3 years*	3-5 years	5-10 years	10 years +
Under age 30	2	3	4	5
Aged 30 to 50	3	4	5	6
Over age 50 and the disabled	4	5	6	7

*The minimum period of insurance required in order to be eligible for benefit is reduced from one year to six months between March 1998 and June 1999.

As an incentive to find a new job, an early re-employment allowance is payable to unemployed workers who find another job within less than half the period for which they are entitled to unemployment benefit. The lump-sum allowance is equal to one-third of the remaining unemployment benefit entitlement.

The coverage of the unemployment benefit scheme was initially limited to employees in firms with 30 or more workers, but a planned extension of coverage to firms with ten or more workers was implemented on 1 January 1998. In response to the crisis, the scheme was further extended to firms with five or more workers from 1 March 1998. (The active labour market measures under the Employment Insurance System initially applied to firms with 70 or more workers and were extended on 1 January 1998 to firms with 50 or more workers. With effect from 1 July 1998, these measures too will apply to all firms with five or more workers.) The percentage of employees covered by the (un)employment insurance scheme in 1997 was estimated at just 33 per cent.

Certain categories of workers are excluded from the Employment Insurance System: employees of firms with fewer than five workers (these workers number 6 million and represent about 45 per cent of all employees), public officials, teachers at private schools (these two groups enjoying exceptional security of employment), new workers over age 60, workers over age 65, part-time workers, and daily paid workers employed for less than 30.8 hours per week. The last two categories will be covered with effect from 1 July 1999. While foreign employees with the right of residence are compulsorily covered, those who have only a work permit can choose whether or not to be covered.

Women are at a disadvantage as regards entitlement to unemployment benefit, not only as part-time workers are excluded, but also because the scheme relates the duration of unemployment benefit entitlement very closely to the length of insured employment. Only workers with ten years or more of insured employment qualify for the maximum benefit duration of seven months. Owing mainly to their family obligations, women tend to have shorter periods of insured employment. Not only are women less well protected, but there are indications that they have been particularly affected by the initial wave of lay-offs within particular sectors and companies. The attitude that it is more important to safeguard the jobs of "heads of households" is said to be widespread and to cause discrimination against women. The jobs of temporary workers, among whom women are rather well represented, have also proved to be particularly at risk.

A positive feature of the Employment Insurance Act from the point of view of women is that a subsidy is available to employers in respect of any woman who opts to take one year's extended maternity leave. This subsidy, which is W135,000 per month for small and medium-sized enterprises and W90,000 for large enterprises, is intended to help pay for the woman's continued social insurance coverage. Of course, many other industrialized countries have gone further, by providing some kind of cash benefit during extended periods of maternity leave. In fact, paid maternity leave in the Republic of Korea is limited to just 30 days before and 30 days after birth. It is the financial responsibility of the individual employer rather than of the social security system. This imposes an unfair burden on companies employing women of child-bearing age and is likely to lead to discrimination in hiring practices.

In January 1998 unemployment benefit was being paid to just over 18,000 persons. At that time registered unemployment was about 900,000. The large disparity between these two figures results from various factors, including:

- C the non-coverage of most employees until the end of 1997;
- C the substantial periods of insurance required in order to become eligible;
- C the relatively short duration of benefit entitlement (between two and four months at the present time, as nobody has yet been insured for more than three years);
- C the tendency for employers initially to lay off their temporary employees (those with contracts of less than three months are not covered by unemployment insurance); and
- C the fact that very many of the workers becoming unemployed have left their jobs voluntarily and are thus disqualified from receiving unemployment benefit (employers prefer to avoid the stigma of lay-offs, so they have encouraged workers to take early retirement or resign; employees are also made aware that if the company is in financial difficulties, it may later become unable to provide severance pay — which is of far more value than any unemployment insurance entitlement).

The number of unemployment benefit recipients as a proportion of the number of registered unemployed is likely to rise as a result of the improvements recently made to the scheme. However, this trend could be reversed if there is a steep increase in the number of the long-term unemployed (who will have exhausted their entitlements).

Even countries with highly comprehensive and universal social security programmes require a system of social assistance to serve as a general safety net, notably for unemployed workers who have exhausted their unemployment benefit entitlements and first-time jobseekers. Yet the Republic of Korea's social assistance scheme is still quite rudimentary and, in particular, does not provide cash benefits to persons deemed able to work — this in a country where the majority of employees have not yet had the opportunity to build up *any* unemployment benefit entitlements. Most of the other countries or areas affected by the crisis, with the notable exception of Hong Kong, China, also do not grant social assistance cash benefits to the unemployed. The traditional emphasis on self-reliance is ill-suited to a crisis in which so many workers are being deprived of the means to earn a living. In some countries, public works schemes function as a substitute for social assistance in areas of high unemployment, as for example in Indonesia, where the Government provides work on a daily basis at 75 per cent of the minimum wage. One advantage of such schemes is that they are self-targeting, and so do not require any system of means-testing, which is usually complex and costly to administer.

One other instance of contributory benefits for unemployed workers is to be found in Indonesia, where workers covered by JAMSOSTEK, the country's national provident fund, are entitled to withdraw the balance from their account, if they have been members of the scheme for at least five years and unemployed for six months. It is projected that there will be 1.4 million withdrawal requests from unemployed members in 1998, representing a total of Rp.291 billion. This exceptional wave of withdrawals is expected to mean that 15 per cent of the membership will withdraw their balances in 1998, a fivefold increase compared with 1997.

Almost all the countries affected by the crisis have some sort of severance pay legislation. This lump-sum benefit is financed and administered by employers. It is highly relevant to workers who become unemployed, although unemployment is not a condition for receiving it. The generosity of severance pay varies quite substantially from one country to another. The existing severance pay legislation in Thailand, contained in Chapter V of the Labour Law, provides for only modest benefits amounting to six months' wages for workers who have been in a job for three years or more (with three months' pay for those with one to three years' employment, and one month's pay for those with between 120 days and one year in the job). Under a special provision, higher payments (which can bring total severance pay up to a

maximum of 12 months' pay) are due to workers with six years' employment or more who are made redundant as a result of the introduction of new machinery or technology.

Thailand's new Labour Protection Act, adopted in January 1998 and due to come into force six months after its publication in the Royal Gazette, provides for higher severance pay for workers with longer periods of employment in the enterprise concerned. Those who have been in the job six to ten years will be entitled to eight months' pay and those with ten years or more will get ten months' pay. Although the intention of the legislation is no doubt to provide better protection to workers, it seems likely that in the short term it will have the perverse effect of encouraging employers to terminate workers' employment before these more costly provisions come into force. Trade unions have therefore asked the Ministry of Labour to issue an interim regulation enforcing the higher payments without delay.

There is evidence to suggest that in some cases the relatively modest severance payments due under the Thai legislation are not in fact paid by employers. This kind of problem is widely recognized in the Republic of Korea, where all employers with five or more employees are required by law to provide severance pay of at least one month's wages for each year of employment (more favourable provisions are often contained in collective agreements, particularly for employees with long service). As a result of bankruptcy, some employers are now unable to fulfil this obligation. A certain degree of protection in such circumstances will be provided under the terms of the Wage Bond Guarantee Act, which is scheduled to come into force on 1 July 1998 and which was one of the measures contained in the Tripartite Commission's agreement of 6 February 1998. A Wage Bond Guarantee Fund will guarantee not only workers' last three months' wages, but also their statutory severance pay entitlements for the last three years. The Fund is to be financed by employer contributions to be set by the Ministry of Labour at not more than 0.2 per cent of payroll. The enterprises covered by the Fund are those which come under the Industrial Accident Compensation Insurance Act, i.e. firms with five or more workers.

Thailand, in its new Labour Protection Act, has provided for the establishment of an Employees' Welfare Fund. This was intended partly to provide a guarantee for severance pay, rather like the measure in the Republic of Korea described above, but also to serve as a compulsory provident fund for employees in enterprises with ten or more employees which do not have provident funds of their own. The provident fund, which would be administered by the Ministry of Labour, would allow workers to withdraw their balances upon separation from employment or upon death. Unlike the measure adopted in the Republic of Korea, the Thai Employees' Welfare Fund would require a sizeable contribution of up to 10 per cent of earnings, shared equally between employers and workers. The severance pay guarantee is a valuable response to the crisis and will in itself cost very little. The provident fund has little or no relevance to the crisis as it will take years for workers to accumulate a significant balance in their account (this being a simple savings account, without any element of insurance against the risk of unemployment, for example). As for its financing, it may be observed that the provident fund would deprive enterprises of large sums of money, a prospect which would be particularly unwelcome to many of them during the current crisis. To that extent obliging employers to contribute to a fund is very different from obliging them to provide severance pay, which allows the funds to be invested within the business. No date has been fixed for implementing the Employees' Welfare Fund.

The provision of a replacement income is not the only type of social benefit required by unemployed workers. Another vital need is for insurance for health-care costs. If workers and their families need such insurance in normal times, they require it even more when unemployment deprives them of all or part of their income. In the social security system of most industrialized countries, workers receiving unemployment benefit are automatically covered by the social health insurance scheme. In most of the countries affected by the financial crisis, such an arrangement is obviously not feasible, as there is no unemployment benefit scheme. However,

persons leaving insured employment have benefited from continued free coverage under Thailand's social security system, which at present is primarily a health insurance scheme (though it also provides cash sickness and maternity benefits, invalidity benefits, funeral grants and survivors' allowances). In response to the current crisis, it has been decided to extend the period of continued coverage from six months to one year. This extension is to remain in place for three years. The targeting of this measure is far from perfect, there being no reliable system to verify that those who benefit are in fact unemployed. It is quite possible that some of them are working, either in other jobs not covered by the social security legislation or for employers who are simply not complying with that legislation. There are worries that the availability of this free coverage may increase the degree of non-compliance, which is already recognized as a significant problem. Once the unemployment insurance scheme provided for by the 1990 Social Security Act is introduced, a more satisfactory solution will be achievable.

In the Republic of Korea, workers who are laid off have the right to continue their health insurance coverage for a period of six months, but to do so, they must pay both the worker and the employer share of the contribution. One of the points agreed to in the Tripartite Commission on 6 February 1998 was that the law would be changed so that laid-off workers would be entitled to continued health insurance coverage for 12 months and would be liable to pay only the worker contribution, the employer contribution being covered for this period by the health insurance society in which the worker had been enrolled. At the end of the period of continued coverage, workers who remain unemployed are supposed to contribute to one of the district health insurance societies which cover the urban self-employed and the farmers. The Government provides subsidies to these societies, covering 30 per cent of the cost of health insurance, but the contribution payable by the insured is nevertheless a significant financial burden for the individual, especially if he or she is unemployed.

The limited level of social protection in many of the countries, and in particular in Indonesia and Thailand, is a reflection of choices on social and economic policy. Thus, throughout the period of sustained economic growth which pre-dated the crisis there was a tendency to rely on the belief that the alleviation of poverty would follow as a direct consequence of economic growth. This, together with a reliance on traditional support systems through the family, has tended to result in only limited priority being given to the development of social protection systems based on redistribution and solidarity. In addition, such schemes as do exist, except in the Republic of Korea and at least in principle in the Philippines, are aimed at the formal sector and cover a limited range of contingencies. The safety net remains the family or individual savings, with the State occupying a relatively minor role in this respect.

Where social security schemes exist they may be viewed as inadequate or poorly managed. In Indonesia, the principal social security scheme (JAMSOSTEK) is limited in coverage to only about 12 percent of the labour force and is perceived by many of its contributors and beneficiaries as ineffective. Various weaknesses have been highlighted in the press. The FSPSI has drawn attention to the low level of benefit and coverage, the lack of transparency in the system and the inappropriate use of social security funds. It has called for JAMSOSTEK to be restructured. The major component of JAMSOSTEK is a compulsory savings scheme — a provident fund — but investment of the aggregate contributions of members and their employers has not always produced a positive real rate of return, so that benefit paid on retirement in the form of a lump sum often provides a poor basis for social protection during the years of retirement.

Below the contributory social security scheme in Indonesia, which does not include unemployment insurance, there is effectively no mechanism or provision for income support for those unable to sustain themselves. Poverty alleviation programmes are understandably focused on job creation or income-generating activities, but there seems to be little recognition of the fact that not all the poor can benefit from such programmes. Indonesia has made progress in poverty

alleviation, but without a real safety net, the effect of the crisis on employment and family incomes will hit hard.

3.6. Social dialogue

Of the three countries, it is clearly in the Republic of Korea that the evolution of strong institutions in civil society has made the greatest strides in recent years. It is here, too, that the crisis has afforded an opportunity for the further consolidation of appropriate institutions of social dialogue at the macro level. The Tripartite Commission, which was launched on 15 January 1998, and the Tripartite Social Accord, signed on 6 February, have become essential ingredients in the development of social and economic policies to contain the social costs of the financial crisis. Most of the labour market policy measures taken recently by the Government, legislation on the socio-economic agenda, and various social plans suggested by the social partners have originated from the Accord.

Key factors in this development have been: the shared sense of emergency among the social partners generated by the worst economic crisis since the 1960s; the urgent need to show the social partners' firm resolve to reform economic structures and the labour market, so as to regain foreign investors' confidence in the market; the consolidation of political and civil democracy evidenced by the victory of the opposition leader, Kim Dae-Jung, in last December's presidential election; and the considerable social and political power of the trade union movement, as manifested in the general strikes of early 1997.

Both the status of the Tripartite Commission and the influence of the Accord itself are distinctive. In particular, it is the decision-making authority of the Commission that is noteworthy. In the past, most tripartite bodies were purely consultative, without decision-making powers. However, the Tripartite Commission has such powers and, indeed, many agreements reached by the Commission were translated into law during the February session of the National Assembly. The remainder of the agreements are expected to become law in the near future. In the past, most tripartite bodies consisted of representatives of trade unions, employers and "public interests", without the direct presence of the Government. This time, the Government is represented by the participation of the Minister of Labour and the Minister of Finance and Economy. As the Accord notes, the Tripartite Commission is likely to become "a lawfully permanent agency which coordinates all economic units in order to overcome the current economic crisis and to achieve social cohesion".

The Tripartite Social Accord covers a wide range of socio-economic matters, including: the promotion of freedom of association; management transparency and business restructuring; labour market policy; the extension and reform of the social security system; wage stabilization and the improvement of labour-management cooperation; and the enhancement of labour market flexibility. Among these issues, the agreements on corporate transparency, business restructuring and labour market flexibility are largely based on IMF-prescribed policy aims, as well as the policy orientation of the new Government and trade unions. The hottest issue concerned the enhancement of labour market flexibility — particularly with regard to legislation on the lay-off system and procedures.

The trade unions ultimately made concessions on the lay-off provisions in return for agreement to improve freedom of association, including a repeal of the ban on political activities of trade unions, the establishment of works councils for government employees, the right of teachers to form trade unions and to bargain collectively, the strengthening of labour market policy measures, and considerable increases in budget outlays to help the unemployed. Employers gained greater freedom to lay off employees, and new legislation on the partial introduction of temporary work agencies.

Thailand has several tripartite committees at national level covering a variety of economic and social policy spheres, and having differing degrees of statutory authority, from the purely advisory to actual decision-making responsibility and authority. However, compared to the recent evolution in the Republic of Korea tripartism in Thailand must be described as substantially weaker, based as it is on weak and internally fragmented organizations of workers and employers.

The level of trade union organization is extremely low. Nationwide, there are about 245,000 union members in approximately 1,000 unions, representing perhaps 3.5 per cent of the 7 million or so workers in the industrial workforce (which itself is only about one-fifth of the country's workforce of 34 million). It follows, therefore, that (i) the role that collective bargaining could play in negotiating the downturn is rather minimal, and (ii) an assessment of "tripartism" must acknowledge the rather limited foundation on which it rests.

Tripartite instruments and procedures have nevertheless played some role in policy guidance on the economic and social consequences of the crisis. Four initiatives are of particular relevance. First, the National Labour Development Advisory Council (NLDAC), an advisory body that often influences government decisions, established a Subcommittee on the Social Effects of the Economic Crisis in October 1997. The mandate of the Subcommittee was to collect available information on the social effects to develop policy guidelines for the NLDAC which, in turn, could be recommended to the Government. The report of the Subcommittee submitted in December documented unemployment figures and argued that they would have major negative effects on the family, the education system, personal health, the crime rate, and political stability itself. It also recommended that the Government work with community-based organizations to, *inter alia*, promote the management and distribution of agricultural goods produced by laid off workers who return to their rural homes; expand the public welfare system, in particular by amending the Social Insurance Act to cover the cost of school fees and to extend free medical treatment to the unemployed; and to apply to job losers active labour market measures such as the expansion of credit options for self-employment, of training opportunities, and the promotion of job fairs and other labour exchanges.

The second way in which tripartism has played a role is through the labour court system. Thailand's system of dispute settlement is tripartite, comprising judges and an equal number of associate judges whose candidacies are proposed respectively by workers' and employers' organizations. This labour court system has had an important role to play in safeguarding labour protection amidst worsening economic conditions. By September 1997, the system's nine-month case load numbered 12,073, already exceeding all annual totals in its 17-year history. Over 80 per cent of cases in 1997, moreover, concerned severance pay entitlements (in 1985, this issue accounted for 52 per cent of disputes heard).

A third example of the relevance of tripartism in addressing the current crisis was the National Tripartite Forum in November 1997. Aside from Thailand's existing tripartite institutions, a tripartite *process* to promote dialogue on the social consequences of the crisis was initiated by the ILO at the request of the Government and with the full support of all of the major workers' and employers' organizations. A two-day National Tripartite Forum was held at the end of November 1997.

Two features of the meeting are of particular significance. First, the *process* itself was relatively novel for Thailand in terms of the breadth of the social actors actually involved in the dialogue. To prepare for the meeting, for example, all of Thailand's labour federations met over a two-day period to draft a common stance on the analysis of the crisis and policy solutions. On the employer side, too, the two major federations were closely associated with the preparation of the meeting and with consultations over the background document for the meeting.

Second, there was a substantive outcome of the Forum in the form of a ten-point statement of recommendations on which tripartite consensus had been reached. One recommendation urged

“that the Government should arrange for a Tripartite Working Group to meet on a regular basis to discuss current social and labour issues and identify ways and means of addressing these. This Working Group could also assist the ILO in planning and organizing activities that are relevant to the issues and objectives described in the document”.

The fourth initiative was the creation in December 1997 of the National Committee on the Alleviation of Unemployment, apparently in response to one of the recommendations of the National Tripartite Forum. This committee, for which the Labour Ministry is the secretariat, is chaired by Prime Minister Chuan Leekpai and comprises representatives of seven ministries as well as one worker and one employer representative. Each of the ministries is responsible for the coordination of a particular policy area. The areas include: the repatriation of illegal migrant workers; promoting the outward migration of Thai workers; support for the King’s agricultural development projects; labour-intensive public works programmes in rural areas; promotion of frugality through development of cottage industries and local goods production and distribution; efforts to maintain employment in industry through marketing and export assistance and the retraining of displaced workers; and targeting assistance to graduates in finding work.

In Indonesia tripartite bodies exist at national, provincial and district levels. However, the various tripartite bodies have not been activated and utilized, nor have they shown by their track record any ability to effectively confront the many pressing labour and social issues arising from the current financial crisis.

There are therefore some reservations as to the real meaning of tripartism, irrespective of the existence of tripartite mechanisms, in the Indonesian case. At the root of what may be described as a weak basis for tripartism are the continued constraints on freedom of association. In fact, the credibility of the officially sanctioned and legally recognized national trade union centre is very much eroded now and workers with grievances, including members of the official unions, are increasingly looking elsewhere for representation. Since recent initiatives to develop independent and democratic trade unions in Indonesia have been contained by government repression, workers’ organizations forced to operate beyond the ambit of the law and often clandestinely are generally unable effectively to openly criticize government policies and programmes.

Indonesia’s official trade union federation, FSPSI, faces challenges with respect to those who should be its natural constituents — Indonesian workers — but it also admits its limitations and lack of effectiveness in relation to the authorities. It has complained of the general tendency to ignore trade unions in policy-making. That workers and their organizations are unable to participate as genuine representative partners alongside the State and capital during the present crisis is symptomatic of a major shortcoming in the industrial relations culture in Indonesia.

Under the circumstances, it can easily be understood that trade unions outside the FSPSI, the most significant of which is the still proscribed Indonesia Prosperity Trade Union (SBSI), have felt inadequate in responding to the problems created by the financial crisis. SBSI has in fact suffered a substantial loss of its membership as a result of lay-offs. It is finding it difficult, owing to limited resources, even to monitor the rate of lay-offs involving its own members. It also claims that its activities were hampered by the tight security measures undertaken by the Government as it prepared for the presidential elections in March.

There are encouraging developments, however. The FSPSI leadership is now actively seeking the assistance of the ILO in pushing for political reforms and facilitating the democratization process, particularly in relation to trade union rights in Indonesia. It has issued a strong statement for the elimination of all existing laws restricting freedom of association. More generally, there is growing acknowledgement from opposition political parties, independent trade union leaders, non-governmental organizations (NGOs), many leaders of official unions, university academics and students, some government officials and employers that socio-economic

reforms and the construction of legitimate labour market institutions will be important for resolving the crisis.

Another favourable sign, in spite of the factors impeding a truly strong and independent tripartite social dialogue from developing in Indonesia, is the recent effort to marshal a tripartite analysis and response to the crisis. In an unprecedented move, the Government through the Department of Manpower (DEPNAKER), the employers through the Indonesian Chamber of Commerce and Industry (KADIN) and the Indonesian Employers' Association (APINDO), and the workers through FSPSI came together in January 1998 to discuss and agree on the current manpower situation in Indonesia resulting from the crisis.

Among the recommendations was a definition of the priority tasks of tripartite institutions and bodies to include:

- (i) maximizing efforts to create harmonious employment conditions to strengthen undertakings and enterprises;
- (ii) minimizing lay-offs by considering alternatives such as reducing overtime work, rearranging working hours, cutting costs which are not directly required by the production process, and relocating workers to other companies within the group;
- (iii) promoting negotiations between workers and employers on the management of lay-offs where they are unavoidable.

However, the meeting did not elaborate on how the recommendations would be pursued and implemented.

3.7. Policies towards migrant workers

An important area for immediate action is that governments in labour-receiving countries should establish clear written policies and procedures to guard against the arbitrary use of power to expel migrants collectively or *en masse*, especially the undocumented, on the grounds that they take up jobs which can be given to nationals. Police and immigration personnel may not always be aware or respectful of basic rights of migrants when there is an economic crisis and political leaders are sending the wrong signals. These basic rights and other aspects of the migrant workers issue are highlighted in the Migration for Employment Convention (Revised), 1949 (No. 97), and the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143).

Protection of the right to accrued wages is also an important issue. The bankruptcy law in some countries may not allow employers to give their workers first lien on company assets for the payment of back wages. In Malaysia it has been reported by the Malaysian Trade Union Congress that workers' claims are simply not entertained. The workers' federation would like such claims be given priority in keeping with the principle adopted by the United Nations Compensation Commission set up after the Gulf war when migrants' claims were given priority and dealt with before corporations' claims were considered. Migrant workers are particularly disadvantaged since they are likely to leave the country of employment long before bankruptcy cases can be resolved by judicial processes. In view of this specific disadvantage, there is a good argument for setting up a fund from employers' contributions, to provide resources for such contingencies. States should also take steps to reach agreements whereby migrant workers can enjoy their acquired rights to pensions and other statutory benefits.

The relevant standards are, in addition to Conventions Nos. 97 and 143, the Protection of Wages Convention, 1949 (No. 95), and the Protection of Workers' Claims (Employer's Insolvency) Convention, 1992 (No. 173).

Authorities tend to impose many restrictions on the purchase of foreign exchange when currencies are under attack from speculators. Migrant workers are evidently seriously hurt by such measures since they will need a convertible currency to support their families back home. It is a violation of ILO standards to restrict their ability to transfer their earnings to their families.

Looking beyond immediate measures, experience in other countries suggests very strongly that the importation of foreign workers should be carried out under government-to-government agreements, where facilities for testing and recruitment can be provided free by public employment offices and where enforcement of employment contracts can be overseen by the appropriate national authorities. None of the Asian labour-receiving countries have been open to such arrangements so far, but the situation may change if the present crisis demonstrates the problems that come with the return of retrenched workers.

Inconsistent or stop-go policies will undermine their effectiveness and fail to resolve problems of clandestine immigration and the irregular employment of undocumented foreign workers. Aspiring immigrants are likely to resort to clandestine entry if they expect another regularization campaign in the near future. Employers will not worry about violating laws in employing those without proper work permits if the government frequently changes its mind as to the occupations or sectors in which foreigners will be allowed employment.

The problems with ineffective immigration controls might lie, in the first instance, in the absence of clear policy goals or the lack of transparency in the processes of formulating such policies. Policies may be murky when there is no consensus among the body politic on how immigration is to play a role in meeting various social, political, and economic goals. Even where the policy is driven by economic goals, i.e. faster growth, implementation may not be easy. An employment-driven labour immigration policy, for example, depends critically on how one can establish the need for employing a foreign worker.¹ Experience shows that a “quota system” entails certain rigidities, but it has the advantage of setting a clear frame for administrators, employers, and the public at large and seems to be suited to the situation in the region. Policy-makers would have to settle the question of what forms of quotas to set (national or by region, by industry, etc.) and administrators would have to develop systems for assessing labour market requirements.

3.8. Concluding remarks

The preceding discussion has shown that while there has been clear concern over the social impact of the economic crisis and even though this has been manifested in a range of initiatives to contain the social costs, the overall impression must be that the response so far has been inadequate. In particular, efforts to cater for the large numbers of displaced workers cover only a small fraction of those in need of such relief. In addition, except in the Republic of Korea, there has been virtually nothing in the way of temporary income support in the form of either unemployment benefits or social assistance to make up for the shortfall in the coverage of direct employment creation measures.

There are two fundamental reasons why the worst-affected countries are in their current state of social distress. The first is the sheer magnitude of the social fallout from an unexpected and severe economic crisis. This would, in and of itself, have put serious stress even on countries with better-developed systems of social protection. The second was the unpreparedness and underdevelopment of the social protection system itself.

Against this background it is important to note that social safety nets cannot, realistically, be constructed in a matter of months. Similarly, measures such as attempts to save viable enterprises and active labour market policies can achieve only limited results when they go against the grain of macroeconomic conditions.

This suggests that a two-pronged approach is required to overcome the current social distress. The first is to try to bring about an economic recovery as soon as possible so that the numbers in need of relief can be reduced through a steady reabsorption into income-earning

¹ See W.R. Bohning: *Employing foreign workers* (Geneva, ILO, 1991).

activities. This requires priority attention to economic policies and related structural reforms for promoting recovery. At the same time, however, work on the second prong of strengthening systems of social protection must also begin. Since high and sustained growth can clearly no longer be taken for granted, a significantly higher degree of social protection must be aimed for. Just as the Great Depression forged a new social contract in many industrialized countries in the 1930s, so too must the current Asian crisis serve as an impetus to creating a more socially oriented model of development. The next chapter seeks to point the way forward towards this.

4. Securing the future

This chapter looks beyond the current preoccupation with social costs and policies to contain them and seeks to discuss some broad lessons for future policy that have been raised by the crisis. The focus will be on the need to strengthen policies and institutions over the medium term in order to reduce the risk of similar crises in the future and to improve the currently rather limited capacity to cope with problems of unemployment and poverty.

4.1. Economic and political reform

An obvious priority is to press ahead with the structural reforms that have been initiated in the wake of the crisis. Of key importance is the strengthening of the financial system which had proved to be the Achilles heel of the pre-crisis economic system. A sound and resilient financial system is an essential buffer against the continuing danger of economic crisis in a world of increasingly integrated financial markets. It is also indispensable for ensuring a return to high and stable growth in the post-crisis period. Similar observations apply to weaknesses in corporate governance that have been exposed by the crisis.

In large part, achieving this will involve technical measures to correct deficiencies such as poor and opaque accounting, lax prudential supervision of banks and the absence of effective bankruptcy laws. But wider new issues relating to the regulation of markets in the context of increasing integration into the global economy will also have to be faced. These relate in particular to the need to find effective instruments to control the degree of exposure to foreign debt by private economic agents, to set prudent limits to debt/equity ratios in the corporate sector and to discourage speculative and unproductive investment.

These technical measures of institutional strengthening and regulation are absolutely essential but by no means sufficient. It was not only weaknesses in formal institutions that created the preconditions for the crisis, but also the contamination of market processes by politics. Unless the latter is contained no amount of tinkering with institutions and regulatory mechanisms will be to much avail.

The strengthening of democratic institutions is thus central to the post-crisis economic model that is required. Free and fair electoral processes, freedom of expression and public debate, the rule of law, and accountability of elected officials are among the attributes of democracy that are essential for preventing the harmful distortion of market processes by arbitrary government intervention and corruption. As the recent crisis has shown, the latter has not only high economic costs but also social ones. Thus, the intrinsic value of democracy is strongly reinforced by economic and social considerations.

Democracy is also essential for ensuring greater social equity in the development process. As has been commented upon earlier, there had been a relative neglect of labour rights and social protection in the pre-crisis period of high growth. The negative consequences of this have been dramatically revealed by the extreme social pain that has had to be suffered since the onset of the crisis. A key element for correcting this deficiency is the widest involvement possible of those concerned, through their representative organizations, in the definition and implementation of the measures to overcome the crisis and to minimize its social effects. This will ensure constant democratic pressure to improve working conditions and levels of social protection. This will also be invaluable in ensuring smooth adjustment to structural change, in coping with economic and social crises, and in raising productivity and competitiveness. As will be argued in the section on the strengthening of institutions for industrial relations below, this will require the fostering of a strong and free labour movement, and the building up of a solid system of industrial relations.

The chapter therefore begins with a section on international labour standards and tripartism that reviews the position in relation to certain specific basic rights issues and also discusses future action.

4.2. International labour standards and tripartism

It is important to note at the outset that two of the comparative advantages of examining the current crisis in an ILO framework are this Organization's normative means of action and the way in which it encompasses the employer and worker sides as well as the government. International labour standards and the procedures attached to them provide an analytical tool, with agreed goals and guidance as to how to achieve them, and an objective evaluation mechanism. The tripartite approach ensures that in both the standard-setting and supervisory work and the practical technical cooperation and other measures taken to facilitate implementation of the Organization's principles and standards there can be on the one hand a sense of realism and on the other a spirit of harmony rather than conflict.

4.2.1. Tripartism and ratifications

More could surely be done to establish tripartite structures to promote social partnership, the development of social safety nets and the advancement of basic rights. Hong Kong, China, remains a notable exception, the Government of China having notified the ILO that it would continue to apply to the Special Administrative Region the Conventions declared applicable previously by the United Kingdom.

4.2.2. The basic rights Conventions

Ratifications of the seven fundamental ILO Conventions are shown in table 4.1. Convention No. 87 is in force for Hong Kong, China, with modifications and has been ratified by the Philippines. Its requirements as to free organizations of workers and employers have presented problems for many countries in the region. On the other hand, Convention No. 98, which promotes collective bargaining, is perfectly compatible with a system which is based more on enterprise bargaining than industry- or nation-wide bargaining, although it also contains important protections of the right to organize and against anti-union discrimination. The tendency towards enterprise-level bargaining perhaps contributes to the difficulties in instituting tripartite negotiations at the national level to overcome the effects of the crisis in some countries where there is weakness of organization on both the workers' and the employers' sides and an underdeveloped culture of collective bargaining. This has been the case especially in Thailand, where the fragmented trade union scene (and the weak employers' organizations) necessitated a special effort from the ILO, which prepared and conducted an ad hoc tripartite meeting of the social partners in the country, who for the first time ever met in the same room in November 1997. The Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), is in force for three countries: together with its accompanying Recommendation (No. 152), it calls for consultation on a wide range of ILO-related issues, which — depending on the Conventions ratified — may provide a useful forum for examining various aspects of social and economic crisis; however, there is little evidence at this point of the use of the tripartite machinery in this context.

The issue of women workers' rights is receiving increasing attention, as evidenced by two ratifications of the Equal Remuneration Convention (No. 100) late last year. This brings the number of ratifications among the seven participating countries and areas to four. Wider discrimination issues have received less attention, though, and the Discrimination Convention

(No. 111) has been ratified only by the Philippines; and Malaysia was the first among these countries and areas to ratify the Minimum Age Convention (No. 138) in 1997.

Table 4.1. Ratifications of fundamental ILO Conventions as on 28 February 1998 (by selected countries and administrative zones in the Asia and Pacific region)

No. 29: Forced Labour Convention, 1930
 No. 105: Abolition of Forced Labour Convention, 1957
 No. 87: Freedom of Association and Protection of the Right to Organise Convention, 1948
 No. 98: Right to Organise and Collective Bargaining Convention, 1949
 No. 100: Equal Remuneration Convention, 1951
 No. 111: Discrimination (Employment and Occupation) Convention, 1958
 No. 138: Minimum Age Convention, 1973

	C.29	C.105	C.87	C.98	C.100	C.111	C.138
Hong Kong, China (4)	X	X	X	X			
Indonesia (3)	X			X	X		
Korea, Republic of (1)					X		
Malaysia (4)	X	!		X	X		X
Philippines (5)		X	X	X	X	X	
Singapore (2)	X	!		X			
Thailand (2)	X	X					

! = Has denounced this Convention.

4.2.3. Employment policy

Among the ILO's priority Conventions, the Employment Policy Convention (No. 122) is binding on four countries. In two of these, the Committee of Experts has in recent years noted the high levels of employment. Given the continuing importance attached to the goal of full, productive and freely-chosen employment at the regional as well as the universal level, and the accumulated positive experience derived from pursuing it in terms of the ILO's various standards and programmes in this sphere, it may well be that Convention No. 122 provides a valid framework for underpinning certain conceptual, institutional and practical aspects of employment policies in the time of crisis.

4.2.4. Freedom of association

This aspect of the ILO's principles and standards is so fundamental to the functioning of tripartism and the whole process of fixing decent labour standards — especially through collective bargaining — that it deserves special consideration. The Organization and the supervisory procedures have always given close attention to the problems arising and often met with remarkable success. For example, the ILO Governing Body's tripartite Committee on Freedom of Association has recently examined cases in Indonesia, the Republic of Korea and Thailand.

Indonesia has not ratified the Freedom of Association and Protection of the Right to Organise Convention (No. 87), but has ratified the Right to Organise and Collective Bargaining Convention (No. 98). Two cases have recently been submitted to the Committee on Freedom of Association alleging violations of trade union rights in Indonesia, one of which is still pending. At its meeting in November 1997, the Committee adopted interim conclusions in the pending case and expressed its deep concern that no action had been taken by the Government to remedy the situation of workers in Indonesia. It requested the Government to eliminate the requirements for union registration which effectively impede the right to organize; grant registration to the

Indonesia Prosperity Trade Union (Serikat Buruh Sejahtera Indonesia — SBSI) so as to enable it to exercise legitimate trade union activities; to drop the criminal charges against Mr. Pakpahan, Chairman of SBSI, and ensure his release and his ability to exercise freely his trade union activities; to institute an independent judicial inquiry into the homicide of a trade unionist; and to investigate the dismissal of trade unionists and ensure their reinstatement if it appears that they were dismissed for trade union activities.

In its most recent observation concerning the application of Convention No. 98 by Indonesia, the Committee of Experts on the Application of Conventions and Recommendations has recalled the need to strengthen the protection of workers in respect of anti-union discrimination; to adopt specific legislative provisions to protect workers' organizations from acts of interference by the employer; and to eliminate restrictions imposed on the right to bargain collectively in the public and private sectors. The Committee has reminded the Government on several occasions that ILO technical assistance is available in order to help bring legislation and practice into conformity with the Convention. The application of Convention No. 98 in Indonesia has been discussed on numerous occasions in the International Labour Conference's tripartite Committee on the Application of Standards. In 1997, the Conference Committee, noting with concern the serious discrepancies between national legislation and practice and the Convention, observed that the Government had not given sufficient proof of willingness to comply with the provisions of this core Convention, as it had not requested technical assistance in this regard. It urged the Government to ensure full respect of the civil liberties essential for full implementation of the Convention.

The Republic of Korea has not ratified either Convention No. 87 or Convention No. 98. Three cases have been submitted to the Committee on Freedom of Association alleging violations of trade union rights in this country since 1992. Following an unprecedented ILO high-level tripartite mission in February 1998, the Committee reached interim conclusions in the remaining case at its meeting in March 1998. In particular, the Committee noted with interest that a national Tripartite Commission had been established and had already reached an agreement to a series of reforms dealing with economic and labour-related issues, including those pertaining to freedom of association, which is to be submitted to the National Assembly. The Committee also made recommendations to the Government: to ensure the right to organize for teachers; to register the Korean Teachers' and Educational Workers' Union (CHUNKYOJO); to extend the right of association to all public servants and to take steps to recognize their right to establish trade union organizations; to speed up the process of legalizing trade union pluralism at the enterprise level; to repeal the requirement of identifying third parties in collective bargaining and industrial disputes to the Ministry of Labour and the penalty for intervention of non-identified persons; to amend the list of essential services; and to take appropriate steps so that the Korean Confederation of Trade Unions (KCTU) is registered. Welcoming the understanding that the new President of Korea was seriously considering an amnesty for detained trade unionists, the Committee also urged the Government to drop the remaining charges against Mr. Kwon Young-Kil, former President of the KCTU. Finally, the Committee noted with interest the prospects for ratification of Conventions Nos. 87 and 98 expressed by the President-Elect's transition team and recalled to the Government the availability of ILO technical assistance in this respect. A national seminar on human rights Conventions is to be held in the Republic of Korea at the end of April 1998.

Thailand has not ratified either Convention No. 87 or Convention No. 98. One case has been submitted to the Committee on Freedom of Association alleging violations of trade union rights in Thailand. This case concerns the adoption in 1991 of the State Enterprise Labour Relations Act. The Government has indicated for a number of years now that efforts to replace the present Act with a new Bill have been delayed as a result of the frequent dissolution of the House of Representatives or the Senate. In 1997, the Government indicated that the Bill was awaiting its second and final reading in the Senate. The most recent version of the Bill brought

to the attention of the Committee on Freedom of Association however still contained numerous provisions which were not in conformity with the principles of freedom of association. The Committee therefore expressed its trust that a new State Enterprise Bill would be adopted in the near future and that it would be in full conformity with the principles of freedom of association.

4.2.5. Future action

In most countries affected by the crisis in the region, it has become obvious that the weakness of their fundamental rights has prevented workers from fully playing their role in mastering the crisis within a tripartite framework. The lack of strong trade unions which can forcefully defend the workers' interests and act as authoritative, reliable negotiating partners has been strongly felt. There may also be a problem of representativeness for some employers' organizations and room for them to strengthen their social strategy. Thus, the Director-General's campaign for the promotion of the fundamental ILO Conventions — especially Conventions Nos. 87 and 98 — and their implementation in law and practice can only contribute to overcoming the present difficult situation. However, their immediate and detailed application presents difficulties for some countries. Ratification of all seven of the ILO's fundamental Conventions concerning forced labour, child labour, discrimination and freedom of association would clearly constitute a positive step: as the ILO has always maintained, these instruments provide a minimum basis for guaranteeing the social justice written into the Constitution.

The same must apply to the more technical Conventions which represent bulwarks for the defence of workers' rights in individual spheres of their work, ranging from occupational safety and health to social security. While member countries are already benefiting from ILO technical assistance in the relevant spheres, their increased ratification will enable the ILO to better detect shortcomings in the national law and practice and to assist countries in overcoming them. Nowhere is this more evident than in the employment sphere, where the operational and the standard-setting side of the ILO's work most clearly meet; and one of the hopes must be that the legal, technical and consultative framework described in Convention No. 122 and related ILO instruments will continue to be tried and built on.

As this paper shows, the other Conventions accorded high priority by the Governing Body also have direct relevance to the problems now experienced. Wherever labour inspection is an issue as a necessary means of ensuring minimum social protection and preserving legality in the workplace, the Labour Inspection Convention, 1947 (No. 81), and the Labour Inspection (Agriculture) Convention, 1969 (No. 129), demonstrate the standards needed. Finally, the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), with its accompanying Recommendation (No. 152), shows the way for any country to address social issues in time of crisis as well as greater peace, in the traditional ILO spirit of harmony and cooperation.

4.3. Employment policies

The crisis has raised the issue of whether it has also marked the end of an "easy phase" of employment creation based on exceptionally high rates of economic growth. If rates of economic growth in the post-crisis period do not return to previous trend levels then there will be a need to pay greater attention to policies for employment creation. Quite apart from this consideration, however, the crisis has also provided other strong reasons for a strengthening of employment policies.

A first reason is that the crisis has brought home the fact that it is not sufficient to merely have a high rate of job creation; policy-makers should also be concerned about the sustainability of the jobs that are created. Where there has been a significant misallocation of investment, as was the case in the pre-crisis period, then the jobs linked to this misallocated investment are

clearly at risk. Indeed, much of the job loss since the onset of the crisis has been in activities associated with an over-expanded construction and financial sector. This concern over the sustainability of job creation highlights the strong and close links between economic and employment policy. A misallocation of investment is unwise in itself, for standard economic reasons. But it also sows the seeds of fragility in the job creation system and this in turn has high potential social costs when jobs are lost sooner or later.

A second reason is that the crisis has revealed significant gaps in the institutional capacity to deal with issues of enterprise restructuring and mass lay-offs. Comprehensive information systems to provide advance warning of, and to monitor, mass lay-offs do not exist and this has proved a severe handicap to the formulation and implementation of countervailing measures. Moreover there has clearly been a very limited capacity to implement active measures to facilitate the redeployment of laid-off workers, such as job-search assistance, retraining and mobility assistance. While it is true that such measures will apply mainly to redeployment within the modern sector, this does not mean that they should be neglected. Even in countries that still have high levels of rural and informal sector employment, such as Thailand and Indonesia, there is still a significant role that such measures can play as part of the overall response to a sudden onset of mass lay-offs. Moreover, in the post-crisis period the weight of modern sector employment will undoubtedly continue to grow and with it the need for a stronger capacity to design and implement active labour market policies.

A third reason is that the crisis has also revealed limitations in the institutional capacity to scale up the existing programmes, such as public works and the promotion of self-employment in the rural and informal sectors, to meet the greatly increased need for such assistance during periods of economic crisis.

A major effort of institutional development is therefore required to remedy these deficiencies. In this respect three areas deserve special emphasis. The first is the need to create stronger capacities to monitor and evaluate the employment implications of overall economic policies. This will involve strengthening the research and policy analysis functions of labour ministries and the establishment of close working links between labour and economic ministries. The remit of this employment policy cluster within government should be to ensure that economic policies do not contain distortions that hinder employment creation or divert it into non-sustainable directions. In general, job creation should be in line with the underlying comparative advantage of the economy and markets should be open and competitive, subject to the need to correct market failures.

Of particular importance is an enabling policy, legal and regulatory environment for the creation and development of competitive enterprises. Reviews should therefore be undertaken of factors affecting industrial and enterprise development, such as ensuring transparent corporate governance, effective financial management and control, national competition policies and the promotion of technology development and diffusion. In addition, any policy bias — either intentional or unintentional — against small and medium-sized enterprises should be removed. Furthermore, the importance of policies to support human resource development, especially the creation of an institutional framework that provides the right incentives for workers to acquire and enterprises to provide training, needs to be clearly recognized.

The second area that deserves emphasis is the strengthening of public employment services, especially their capacity to design and implement active labour market policies. There is currently a shortage of qualified staff to plan and administer active labour market measures and limited knowledge about such basic adjustment concepts and techniques as early intervention and rapid response, using labour-management adjustment committees to plan and direct the delivery of adjustment services, and organizing re-employment assistance services and delivery of assistance on-site. Parallel capacity-building will also be required in other agencies responsible for designing and implementing direct employment creation schemes. There is potential to substantially expand these schemes, especially if donor support is forthcoming. Of particular

importance in this context are employment-intensive investment programmes, targeted at the unemployed and the underemployed, that lead to the development of local productive capacity. Similarly, agencies responsible for the promotion of self-employment in the rural and informal sectors and the development of entrepreneurship and promoting micro-, small and medium-sized enterprises also need to be strengthened. At present such programmes in the crisis-affected countries are of varying quality and have limited potential for success. In order to be successful such programmes must include the necessary training and technical assistance to give new businesses a better chance of being successful in generating sustainable jobs.

A third area is that of strengthening of the capacity of enterprises for adjustment. Achieving enterprise reform is critical for many businesses if they are to successfully weather the financial crisis, remain competitive and preserve or create jobs.

Many business owners and managers may believe that employee lay-offs are the only option available to solve their business problems in the face of the immediate financial crisis. Some managers may also not fully appreciate the implications and potential negative consequences that such action may have on the productivity, competitiveness and long-term success of their enterprises.

It is important that enterprise managers, trade union leaders and government officials all understand the concepts of employment security and socially sensitive restructuring so that the enterprise reforms undertaken as a result of the financial crisis strengthen the enterprise's competitiveness rather than further damaging it.

The adoption of socially sensitive restructuring principles needs to be actively promoted among employers, workers and government officials in all countries experiencing the impact of the financial crisis. An important part of these principles is the need to raise awareness of possible alternatives to lay-offs in the face of urgent needs to cut costs.

Good restructuring practices and the successful experience of other enterprises need to be shared and widely disseminated. Technical assistance and training resources are urgently needed to increase the quantity and level of enterprise restructuring expertise available to help employers systematically implement these principles at the enterprise level.

An important element of enterprise reform is the ability of managers and workers to adopt new ways of thinking and new techniques for effecting change in their organizations. If countries are to emerge from the financial crisis in a more competitive position, they will need to adopt productivity-enhancing restructuring programmes.

4.4. Strengthening social protection

One of the clearest lessons to emerge from the crisis is that existing systems of social protection were unable to cope adequately with its social consequences. The strengthening of social protection is thus an important priority for future action.

Finding the economic solutions to a crisis cannot be divorced from dealing with its social consequences. This has been seen very clearly in the current crisis, especially in the Republic of Korea. There the tripartite negotiations to which the crisis gave rise resulted in agreements not only on immediate measures to improve social protection but also on ways to strengthen the system in the longer term.

For example, it was decided to unify the country's health insurance schemes. Some of these have excessively large reserves (notably those in the large companies and in the prosperous areas), while others suffer from chronic deficits (notably those in the poorer areas of the country). Consensus was also reached in the Tripartite Commission on the need to give the social partners a real say in the way social security schemes are planned and managed. In particular, employers and workers have made it clear that social security pension reserves can no longer be used as a source of cheap financing by the Government. To deal with the projected long-term

financial problems of the national pension scheme — which may be aggravated by the present crisis, though they were not induced by it — hard decisions will have to be taken in the next few years. Full involvement of the social partners in this process would appear to be vital for achieving a satisfactory outcome. The accord reached on this subject in the Tripartite Commission is important not only in the context of the present crisis, but also for the long-term sustainability of the social security system. A major challenge for the country's social protection system is to extend coverage to workers in small enterprises (almost half of all employees), who remain excluded not only from unemployment insurance, but even from entitlements to severance pay and industrial accident insurance.

Far greater challenges face most of the other countries if they are to be well equipped to face such crises in future. In particular, there is a need for better-targeted measures to help tide workers over during periods of unemployment. Until now, all that has been provided in most of these countries is severance pay. This goes of course to many workers who do not become unemployed at all, while the amount received by those who do become unemployed bears no relation (or indeed may well be inversely related) to the duration of their unemployment. Being so poorly targeted, severance pay fails to provide adequate protection.

4.4.1. Unemployment insurance

Apart from its obvious social advantages, unemployment insurance has the economic advantage of spreading the cost of dealing with the major social consequences of a crisis evenly among all enterprises. In this way social protection can be achieved without adversely affecting competition between enterprises and without reducing the chances of survival of those which are worst affected by a crisis. The merits of unemployment insurance were clearly appreciated by the drafters of the Social Security Act adopted in Thailand in 1990. Given the very gradual development of social security in that country, implementation of that part of the legislation may still be some time away, but the present crisis should lead to increased awareness of the need to introduce unemployment insurance sooner rather than later.

Experience suggests that an adequate unemployment insurance scheme can be financed by a total contribution rate of about 2 per cent of insured earnings. Typically this would be shared equally between employers and workers, implying a 1 per cent contribution by each. There need be no government contribution. However, governments would normally finance active labour market expenditures from general revenue, particularly as these measures, unlike unemployment insurance benefits, are usually provided to all jobseekers, regardless of their previous employment or contribution record.

A certain minimum of period of time is necessary in order to prepare for the introduction of unemployment benefits. The collection of contributions can be started right away, provided that the coverage of the scheme and the definition of insured earnings are the same as for the existing social security scheme. More time will of course be necessary to organize the delivery of benefits and to put in place the services which can help the unemployed to find other jobs and at the same time serve to check that they are indeed willing and able to work. If the authorities intend the unemployment insurance scheme to provide significant help to workers during the current crisis, special measures may be taken with this in view. For example, periods of insurance under the existing social security scheme may be counted towards meeting the eligibility requirements of the new unemployment insurance scheme.

4.4.2. Severance pay guarantees

As has been shown elsewhere in this report, severance pay does not represent the ideal method of providing social protection against the risk of unemployment. However, it already

exists in most of the countries concerned. The current crisis has focused attention on one of its weaknesses, namely the risk that the employer responsible for paying it may fail to do so.

One part of the solution to this problem is better enforcement, which may be promoted not only by more labour inspection and firm action by the courts, but also by more publicity about workers' entitlements and better trade union organization. Another part of the solution is to establish a severance pay guarantee scheme which may, as in the Republic of Korea, be combined with a guarantee of unpaid wages, in the event of enterprise bankruptcy. Such a scheme should not cost the government anything. It should be financed by a modest employer contribution and administrative costs may be kept to a minimum by collecting this together with contributions to the social security system.

4.4.3. Social safety net

While unemployment insurance is a powerful tool, it clearly has its limitations. In particular, it does nothing for first-time jobseekers, who may be young people entering the labour market or others who have previously been self-employed or working in the informal sector. And even in the case of workers who have unemployment insurance entitlements, there is the risk that these may be exhausted before other work can be found. Some kind of safety net is vital to ensure that everybody falling into such categories is able to cover the basic subsistence needs of themselves and their dependants.

Social assistance is the classic solution to this problem in the industrialized countries. It is feasible in some of the countries and areas affected by the current crisis. Indeed, Hong Kong, China, has a well-developed social assistance system. In others it may not be feasible in the short or medium term, either because the government cannot or will not make the necessary funds available, or because it is impossible to determine with any degree of certainty who requires such assistance and who does not. If there is an extensive informal sector, it is extremely difficult to administer income tests and means tests. Besides, even in favourable conditions, such administration is complex: training the staff and building up the necessary administrative infrastructure will take years.

This should not, however, be used as a pretext for doing nothing. In the short term, an alternative is available which obviates the need for means-testing and income-testing. This alternative is the guarantee of work on public projects in return for a subsistence wage. This is often described as a "self-targeting" measure, since only people in genuine need are going to volunteer for such work. It is a crude solution, which may amount to punishing the poor if the nature of the work and the adequacy of the pay are not properly supervised. However, in the short term it is probably the only feasible safety net that can be provided in most of the countries affected by the crisis. To be effective, this guarantee of work must be provided to all who apply. Otherwise the concept of a safety net is a misnomer. This is why the previous section of this chapter pointed to the importance of expanding and improving the capacity to design and implement direct employment creation schemes.

4.4.4. Health care

It can be expected that if the crisis, with its attendant consequences for unemployment, low incomes and poverty, is prolonged the health status of the poorer sections of the population will suffer. Worsening nutrition, homelessness and stress due to job loss, the fear of it and the experience of more straitened economic circumstances will all eventually have adverse effects on health. But more immediate is the question of maintaining and improving access to health care for a population whose income has been reduced, especially the poorer sections of it.

Public health services must respond. Services must be expanded; access to them must be made convincingly universal; they must be made cheaper to the user; and for the poor, user costs

should be waived — at present the cost of collecting user charges is often greater than the revenue which they yield. There are several main strategies which could be applied. One is to impose a greater and more careful degree of regulation on the framework of non-public health insurance, to limit the extent to which health care providers can exploit an inflationary situation. Another is to promote the extension of health care coverage to workers who are dismissed. Yet a third is to integrate the purchases of pharmaceuticals — for both public and private schemes — into bulk purchasing arrangements for imported drugs and to encourage domestic production. These developments will all take some time, but they are worth pursuing in their own right and as part of a longer-term strategy.

4.4.5. Progressing from provident funds to social security

The present crisis has served to underline just how little protection is provided by personal savings, whether these are voluntary or compulsory. Many people have lost their savings in stock market crashes and with the collapse of financial institutions, while devaluation and inflation have spared only the very rich and the very well connected. In particular, the balances which workers have in national provident funds and which are supposed to prepare for the contingencies of invalidity, old age and death, turn out all too often to be barely enough to sustain them or their survivors for a month or two. Periodical benefits are the only satisfactory way to cater for these contingencies. Without them, the elderly and the disabled will be condemned to a life of poverty and extremely vulnerable to any crisis, such as the present one, which leads to inflation and to interruption of the incomes of those upon whom they depend. In more highly developed countries, pensions for the mass of the elderly not only remove this threat to their subsistence but also act as an automatic stabilizer during a recession or a depression.

Moving from lump-sum payments to periodical benefits is not easy. Not only are workers very possessive about the money in their individual accounts (the system encourages them to be), but they tend to be extremely suspicious of any government proposals to withhold this money from them any longer than originally envisaged. However, with demographic trends leading to a far greater proportion of the population in the older age groups and with social trends tending to reduce the extent to which the elderly can rely on support from the extended family, countries which do not make the effort to introduce pensions now are going to find themselves in deep trouble in the next century. For this effort to be successful, it is vital that the social partners be fully involved in the reform process. Failure to win the understanding and support of workers and their organizations is bound to undermine reform plans, no matter how well designed these may be.

4.4.6. A minimum pension

Moving from a provident fund to a social insurance scheme is in one sense not such a radical change, since both systems are contributory and earnings-related. Certainly the latter is much more effective at preventing poverty, by providing benefits regularly for life. However, both systems do nothing for those who have not been insured; and many old people, indeed the vast majority in some of these countries, fall into that category, either because pension insurance did not exist when they were economically active or because they belonged to a category of the labour force that was not covered by the system.

The problem of providing a basic minimum pension to the large number of people too old to work and without any other form of income is clearly a major one, but it needs to be tackled immediately if the effects of the crisis are to be mitigated. One way of doing so is to establish a minimum basic pension, independently of previous contributions. It would need to be financed from general revenues, and for financial reasons eligibility should be based on both age and

income. The age criteria would need to be set fairly high — over 70 for example — and the income criteria would need to be set fairly low — above the poverty line, but not much above — in order to provide a subsistence level of income to those who could not otherwise achieve it.

4.4.7. Protection for those in the informal sector

Most of the countries affected by the financial crisis in Asia have a large informal sector and the crisis itself is driving many more of the economically active into this sector, where they enjoy little or no social protection. It is clear that people resort to the informal sector in most cases because they have simply no alternative. It is hardly a matter of choice, at least for the workers themselves. The State has a responsibility to these people, as workers and as citizens, if not as contributors. One way to discharge this responsibility is, as suggested above, to institute a universal pension. Another priority is to find suitable ways to finance health care for them. Adequate public health services should no doubt be part of the solution. However, health insurance can also play a part, as those concerned are often able and willing to devote some of their disposable income to securing health-care coverage for themselves and their families. In this area, no quick or easy solutions are on offer. Governments with a will to achieve real progress may do so, however, if they tackle the problem simultaneously from both ends, i.e. by helping to promote self-help grassroots mutual insurance schemes and by gradually extending compulsory coverage and improving the level of compliance.

4.5. Strengthening policies towards vulnerable groups

Policies and programmes for dealing with social problems during the crisis, as well as beyond it, must be sensitive to the special needs of vulnerable groups such as working children, women and migrant workers. A variety of means for ensuring that this sensitivity towards vulnerable groups is embedded in the policy-making process are discussed below. Some types of practical action that can be tailored to meet the special needs of these groups are also highlighted.

4.5.1. Child labour

As the adverse effects of the crisis on child labour start to become apparent, it is important that poverty alleviation programmes target vulnerable groups, in particular female-headed households, whose children run the risk of ending up in child labour. Employment creation schemes could target specifically workers with families in those sectors of the economy in which redundancies have been greatest. Educational accessibility needs to be guaranteed for all children in order to reduce the likelihood of child labour. Monitoring and protection of working children can be increased, for example, by strengthening labour inspection and monitoring capacity at community level. The ILO's International Programme on the Elimination of Child Labour (IPEC), through a well-developed network of partners at country level, has made considerable progress in legitimizing, strengthening and extending work against child labour in Asia.

4.5.2. Women

There are signs that the crisis has had a disproportionately adverse effect on women workers, who are likely to be the first to suffer from the casualization of work or erosion of social protection that accompany serious economic reversals. The crisis thus provides a timely opportunity to reinforce and advocate even more strongly ongoing policies and strategic approaches for gender equality at work, to ensure that women's social and economic gains are not seriously set back or lost altogether. This requires that appropriate policy responses in each

of the foregoing areas be tailored with their differential impacts on men and women workers in mind. Gender analyses both on the impact of the crisis and on the policy responses to it would be a first step.

Guidelines need to be applied for integrating gender concerns into the design and implementation of emergency employment creation programmes, skills training programmes, and policies to promote self-employment, entrepreneurship and access to credit.

It is important, for example, that displaced women workers, as well as those working in the informal sector, obtain greater access to information, knowledge, skills and resources to enable them to improve their position in the labour market. This can be achieved through the promotion of individual or group-based enterprises which are owned and managed by women. Special and separate emphasis would have to be given to the needs of educated and skilled women who have had exposure to enterprise development, as well as to those less educated and unskilled women who would tend towards informal sector or cottage-based enterprises. To realize these opportunities, it is necessary to expand the scope of social protection to these sectors and forms of employment in which women workers predominate. This should include measures to cover the costs of maternity protection and leave.

It is clear that women's needs are unlikely to be placed on the agenda if the organizations that draft the agenda themselves have little participation and representation of women. Equal participation of women in all processes of decision-making must be promoted.

Since redundancies and the settlement of disputes strongly affect women workers, the importance of their role in the decision-making bodies and their participation in the process and mechanisms for collective bargaining needs to be underscored. In the context of the crisis, this becomes even more evident. Women's gross underrepresentation and lack of equal participation at decision-making levels are key reasons why gender equality issues such as recruitment, hiring, wage equity, bonuses, dismissals and family responsibilities receive marginal attention.

The capacity of the social partners to ensure that women's needs and concerns are placed on the agenda, to address gender issues, and to take the necessary action, should be enhanced.

4.5.3. Migrant workers

The crisis has made abundantly clear the need for recasting approaches to managing international labour migration, which were characterized by unclear policy goals, slack implementation and an absence of bilateral regulation. Good governance is of the utmost importance in this field because the cross-border movements of workers and dependants touch upon the innermost feelings of people; and they involve human beings, most of whom are poor, rather than commodities.

At the national level, therefore, there is an urgent need for reviewing policies, procedures and measures on how to admit and treat foreigners who are needed and to prevent the entry, stay or employment of those who are not needed. It could perhaps start with tripartite consultative meetings at the sectoral level — agricultural, construction, manufacturing and private services — before matters are discussed, as well as decided upon, in a tripartite framework at the national level. It might conceivably include the issues of graft and corruption at the local police level, on the one hand, and of the establishment of funds, based on contributions, to compensate migrant workers for wages not paid in the event of insolvency and bankruptcy, on the other. Comparative experience on good governance in this field can be shared.

At the international level, there is an urgent need for establishing bilateral or multilateral mechanisms to transcend the inherent limitations imposed by national boundaries on the impact of state interventions in this sphere of social policy. Bilateral or broader consultations, of a formal or informal nature, can assist countries in the conceptualization and implementation of agreed regulations to channel workers into jobs where they are authorized to be employed. These

can include: the setting up, at bilateral levels, of joint commissions of labour which could serve as informal and flexible structures for regular consultations between authorities of sending and receiving countries; bilateral labour agreements covering key procedural and other issues, including human resource development, social security and minimum wages; and round-table discussions, at regional or subregional levels, to tackle common problems and solutions.

4.6. Strengthening institutions for industrial relations

In the most-affected countries, the crisis has revealed the underdevelopment of industrial relations institutions and the weakness of social dialogue. Progress in these areas lagged behind the rapid economic growth of the last two decades. One effect is the genuine risk that the burden of adjustment — its social costs — will be shouldered disproportionately by the working population and, more particularly still, by society's most vulnerable.

The weakness of social dialogue is also a constraint on these countries' ability to recover rapidly from the economic downturn in two ways. First, without workable channels through which a social consensus on hard policy choices can be attempted, increasing social unrest may result. Social instability weakens the effectiveness of policy and could force delays in needed reforms. Second, the weakness of labour-management dialogue narrows the options available to firms in their search for ways to weather the present downturn that are least damaging both to the firm and to the economy in general. Improved labour-management communication can yield a broader set of alternatives to the lay-off mechanism. This is good for firms, which can preserve productive capability for when conditions improve. It is also good for the economy, since the negative effects on incomes and consumption can be limited if lay-offs are averted.

There are, however, positive signs that the economic crisis has led to just this recognition among governments and the social partners. The need to strengthen systems of industrial relations and to improve channels of democratic participation in economic and social policy choices is more broadly acknowledged now than ever in the past.

The discussion in the previous chapter has shown the key role of social dialogue and collective bargaining in efforts to overcome the effects of the financial crisis. Among the worst-affected countries, it is in the Republic of Korea that these mechanisms have played the most significant role. A comprehensive set of measures were put in place through tripartite consensus at the national level and joint negotiation at the enterprise level, and these have considerably improved the prospects for a smooth transition out of the crisis. Because of the higher degree of industrialization in this country, the trade union movement is the most powerful and the practice of collective bargaining and labour-management cooperation is the most advanced among the worst-affected countries. In contrast, in the two other countries, tripartite and bipartite negotiations on measures to cope with the crisis were hampered by the weakness and fragmentation or lack of representation and independence of the trade union movement and the absence of a culture of negotiation and consultation between the government and the two social partners. As a result, risks of social unrest appear greater and the prospect for a smooth adjustment more uncertain.

The main policy lesson to be drawn is that for adjustment to take place in a speedy and fair manner, there must be a system of industrial relations in which bipartite and tripartite dialogue, participation and consensus can take place.

4.6.1. Ensuring freedom of association and strengthening unions

A precondition for this is that the parties to the dialogue should be free, able and willing to discuss issues seriously, make commitments and deliver on them. This requires the existence of

free, representative and strong trade unions to defend the interests of workers and act authoritatively as interlocutors with enterprises, employers' organizations and government.

Yet the reality is that in the three countries most affected by the crisis, as in other countries in the region, these conditions are not met. Indonesia, the Republic of Korea and Thailand have not ratified the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), while only Indonesia has ratified the Right to Organise and Collective Bargaining Convention, 1949 (No. 98). In all three countries there are legal and practical restrictions on the creation and functioning of trade unions, which have been the subject of complaints to the ILO Governing Body Committee on Freedom of Association. As described above in the section on international labour standards, that Committee has made strong recommendations to remedy the situation.

However, it is noteworthy that in the Republic of Korea, in spite of not being formally registered, the Korean Confederation of Trade Unions (KCTU) (the second trade union federation in the country) was represented on the Tripartite Commission and was a party to the Tripartite Accord. That Accord itself provides for the removal of several important limitations on freedom of association, which will make it possible for the Republic of Korea to ratify Conventions Nos. 87 and 98 in the near future. Similarly, in Indonesia and Thailand, the crisis and the need to fully involve the representatives of the workers in the search for solutions appear to have increased awareness of the importance of a free and strong trade union movement. In Indonesia, where only one central federation is allowed by law, this federation itself (the FSPSI) has issued a strong statement calling for the elimination of all existing laws which restrict freedom of association. In Thailand, the National Tripartite Forum, organized in November 1997 at the initiative of the ILO, agreed to call for a review of labour law in order to ensure freedom of association.

In addition to removing the legal barriers to freedom of association, there are practical steps to be taken in all the countries in the region, by governments, employers and their organizations and the unions themselves, to strengthen the trade union movement, in order to make it a reliable and responsible partner.

Governments and employers, in particular, must accept the existence of trade unions and recognize that it is in their best interests to have interlocutors who, at the enterprise level, can help draw up "social plans" designed to limit the number of dismissals and soften their impact (see box). Trade unions can also be associated at the national level with hard policy choices, thereby giving legitimacy to and enhancing the acceptability of painful adjustment measures.

Social plans

Social plans can be described as agreements reached between labour and management to develop an organized set of measures seeking alternatives to dismissal, assistance in arranging re-employment elsewhere and compensation, in an effort to limit the number of planned redundancies and minimize the impact on workers and communities. The social planning process typically begins after an organization has announced that it intends to scale back the size of its workforce or even shut down operations entirely. Following such an announcement, the social partners meet to find workable alternatives to mass redundancies. These alternatives tend to involve such initiatives as early retirement schemes, incentives for voluntary redundancies, natural attrition, conversion from full-time to part-time status, reduction in working hours, wage moderation or cuts in compensation, relocation to another worksite within the organization, and worker retraining. If redundancies cannot be avoided, the social plans address such matters as an orderly process for lay-offs, redundancy payments, job counselling, job search assistance and training for new and expanding occupations. In France, for example, companies employing more than 50 workers are legally required to draw up a social plan to limit the number of redundancies. Such was the case recently with Moulinex, a major household equipment manufacturer in France. The company announced its intentions in June 1996 to make 2,100 workers redundant over three years, close two sites in Normandy and transfer the head office west of Paris. It then signed an agreement with its five trade unions in January 1997 which reduced the number of planned job cuts from 2,100 to 1,468 through a combination of reductions in working time and early retirement. Working time will be reduced by 15 per cent for 750 workers, from 39 hours to 33 hours and 15 minutes per week, paid at 97.2 per cent of the base salary and organized on a voluntary basis. Early retirement will be offered to 718 employees from age 56. To prevent the loss of 600 more jobs, Moulinex will offer a relocation package of Frs. 80,000 to encourage workers to move to other locations within the company, such as the production plant in Normandy. The primary objectives of social plans such as that concluded at Moulinex are to maintain employment levels wherever possible, and reduce disruption and facilitate re-employment when lay-offs are unavoidable.

In some countries, unions have been divided and have given the impression of being more concerned with competing against each other than with defending the well-being of their members. By trying to overcome their differences and presenting a united voice, they would be able to attract more members and gain more credibility as interlocutors in the dialogue with the other two social partners.

4.6.2. Improving mechanisms for collective bargaining and tripartite dialogue

As noted earlier, the crisis has afforded the opportunity to strengthen collective bargaining and tripartite dialogue in the region. This opportunity has been acted upon but there is still room for improvement.

Governments should take the lead in promoting the practice of collective bargaining and tripartism. They can do this by ensuring that there is an appropriate legislative framework which enables effective use to be made of collective bargaining and tripartite dialogue. With respect to tripartite discussions, governments can ensure that these are held frequently and that they are of good quality. The latter will depend, in large measure, on ensuring the availability of information. It will also be important to raise the credibility of the tripartite process itself. Regardless of whether the tripartite body has statutory powers of co-decision, or is just advisory, it is only when the tripartite process actually influences decision-making and shapes policy that it will be credible, and will be so judged by public opinion.

For the social partners to play a constructive role in collective bargaining and the tripartite process, there is also a need to strengthen institutional capacity. For example, trade unions need to develop their capacity to formulate policies that will enable them to deal effectively with the economic crisis. Unless officials of the national trade union centre have the analytical capacity to assess policy options, they cannot expect to have an authoritative voice.

The impact of collective bargaining and tripartite dialogue also depends on the credibility of its constituent parties. Worker and employer bodies that lack either independence, members, or both can scarcely be seen as true representatives of labour and management. As indicated

above, laws and practices that constrain the independence and growth of workers' and employers' organizations, or that breed fragmentation and the consequent inability to speak with one voice, are impediments to the growth of tripartism. Where the legal and policy frameworks are appropriate, it is incumbent on worker and employer bodies themselves to organize as much of their potential membership as possible, and to ensure that the views of their members are represented.

Improving the levels at which collective bargaining and tripartite dialogue can occur may also be necessary. In most countries of the region, there remains a relative vacuum of interest representation between the national and enterprise levels. It is important to create and strengthen the frameworks for social dialogue at intermediate levels, so as to be able to address local or sector-specific problems more effectively. The recent creation of bipartite industrial relations committees at provincial level in Thailand is a promising example. Another possibility would be to encourage tripartite representation in the local public employment services. The development of dialogue at industry level could be useful. Tripartite bodies at this level could serve as a sort of informal employment exchange, as a means of diffusing learning and experience in workplace cooperation, or as a mechanism for identifying training needs common to the industry.

The development of social dialogue at intermediate levels of course assumes that the social partners are organized and structured at these levels. This is often not the case. Separate efforts at institution-building may therefore have to precede joint efforts at dialogue.

4.6.3. Building up a new climate of industrial relations

Building up a new climate of industrial relations that emphasizes dialogue and the search for agreed solutions over confrontation and the imposition of diktats is just as important as setting up an appropriate institutional framework. The current crisis has engendered a sense of emergency and the realization that unless solutions that are fair and acceptable to all parties concerned are found, social cohesion will be severely endangered. Surmounting the distrust and adversarial attitude which traditionally prevailed between them, governments, employers' organizations and unions are trying, with different degrees of intensity and success, to come up with measures to minimize the social impact of the crisis and to lay the basis for economic recovery. It is to be hoped that this trend will continue and that a new industrial relations culture is emerging, a culture of dialogue, recognition of and respect for each other's differences and of a willingness to search for compromises that can strike an acceptable balance between economic considerations and social needs and ultimately maintain social cohesion.