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Impacts of current global economic crisis on Asia's labor market

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ADB Working Paper Series

**Impacts of Current Global
Economic Crisis on Asia's Labor
Market**

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Kee Beom Kim, and Gyorgy
Sziraczki**

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Abstract

The paper investigates the labor market and social impacts of the global financial and economic crisis in Asia and the Pacific as well as national policy responses to the crisis. It draws on recent macroeconomic, trade, production, investment, and remittances data to assess the employment and social consequences of the crisis, including falling demand for labor, rising vulnerable and informal employment, and falling incomes and their related pressures on the working poor. The paper provides some projections of the impact on unemployment, vulnerable employment, working poverty, and labor productivity in the region in 2009. It demonstrates that labor market recovery is likely to lag behind output growth, based on the experience of Asian labor markets following the 1997 Asian financial crisis. The paper underscores some policy options that are likely to have positive outcomes toward generating employment and boosting aggregate demand, improving social protection and welfare on the basis of decent work principles, and promoting a sound and sustainable economic and labor market recovery.

JEL Classification: E24, I30, J08, J20

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1. INTRODUCTION

This paper provides an assessment of the labor market and social impacts of the financial and economic crisis in Asia and the Pacific and reviews national policy responses to the crisis. It highlights some policy options available to governments confronting the crisis that are likely to generate employment, improve social welfare on the basis of decent work principles, and promote a sound economic and labor market recovery.

Section 2 provides an analysis of the impact of the crisis on the region's economies along with the key channels through which the crisis is being transmitted. It examines economic growth trends in 2008 and projections for 2009. Section 3 assesses the employment and social consequences of the crisis, including falling demand for labor, the more salient trend of rising vulnerable and informal employment, and falling incomes and their pressures on the working poor. As the recovery in the labor market is likely to lag behind output growth, the section examines this issue by looking back at the experience of Asian labor markets following the 1997 Asian financial crisis. The section identifies the most vulnerable groups and provides some scenarios regarding impacts on unemployment, vulnerable employment, working poverty, and labor productivity in 2009.

Section 4 provides an overview of the size and composition of fiscal stimulus measures in selected economies in developing Asia. The section assesses fiscal stimulus responses in terms of their nature (direct and indirect) and temporal impact (short and long term) and the need to combine measures that enhance short-term demand as well as long-term growth. The paper concludes with Section 5, a brief review of some critical issues and policy options to maximize the positive economic, employment, and social outcomes of the fiscal stimulus measures in developing Asia, including in the areas of public investment and infrastructure expenditure, social transfers to the poor and vulnerable, global and regional coordination of fiscal policy responses, employment and social protection policies, and support for enterprises and environmental sustainability.

2. THE ECONOMIC IMPACT OF THE GLOBAL CRISIS IN ASIA AND THE PACIFIC

2.1 Economic Impact and Forecast

While many Asian economies continued to grow very rapidly in 2008, recent data indicate that the region is under significant stress from the global economic crisis. Economic growth in the Asia and Pacific region declined to 5.1% in 2008, down from 8.0% in 2007 (International Monetary Fund [IMF] World Economic Outlook Database April 2009). Asia's developing economies fared far better than the region's industrialized economies. In developing Asia, growth declined to a still robust 7.7% in 2008, down from very rapid growth of 10.6% in 2007, while, in the region's newly industrialized economies, growth slowed to 1.5%—less than one third the rate of 5.7% achieved the previous year.¹ And growth in Japan plunged to -0.6% in 2008, down from 2.4% in 2007.

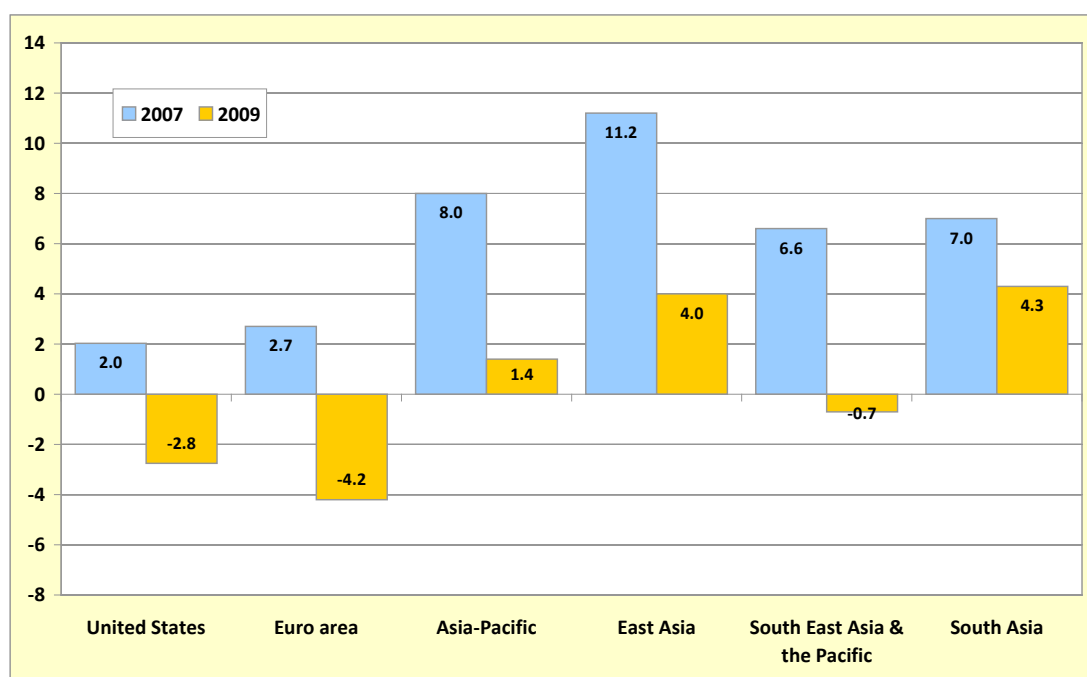
Annual figures fail, however, to reveal how suddenly the crisis emerged. Most developing economies in Asia and the Pacific initially saw only moderate deceleration in growth. But, as the crisis intensified and demand sharply slowed in the United States, European Union, and Japan, a substantial decline in economic activity took place in many Asian economies in the

¹ The "developing Asia" region is an IMF regional grouping and is comprised of Bangladesh, Bhutan, Cambodia, People's Republic of China, Fiji, India, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga, Vanuatu, and Viet Nam. The "newly industrialized Asian economies" region is comprised of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.

closing months of the year and in the first quarter of 2009. In the People’s Republic of China (PRC), growth slowed to 6.1% in the first quarter of 2009, down sharply from 10.6% in the first quarter of 2008 (China National Bureau of Statistics 2009). In the Republic of Korea (hereafter Korea), growth tumbled from 5.5 to -4.3% (Korea National Statistical Office 2009), and in Singapore output plummeted from 6.7% to -11.5% over the same period (Singapore Department of Statistics 2009). Meanwhile, growth in Thailand dropped from 6.0% in the first quarter of 2008 to -7.1% in the first quarter of 2009, reflecting both contraction in external demand and heightened political instability (Thailand Office of the National Economic and Social Development Board 2009a).

By April 2009, the outlook for Asia and the Pacific had deteriorated significantly (Figure 1). Current forecasts indicate that economic growth in the region as a whole will drop to only 1.4% in 2009, down sharply from 5.1% in 2008 and the very rapid growth rate of 8% achieved in 2007. The International Monetary Fund (IMF) prediction in October 2008 that the region would grow by 5.6% in 2009 highlights the rapid and substantial deterioration that has taken place.

Figure 1: Annual Real Gross Domestic Product Growth Rates, 2007 and 2009 (forecast) (in %)



Note: Subregional country groups are provided in Table A.1 in the appendix.

Source: IMF 2009. IMF: World Economic Outlook database (April 2009).

Asia’s developed economies have seen the largest shock to economic growth. The developed economies of Japan, Australia, and New Zealand are, together, projected to shrink by 5.4% this year. The export-dependent Southeast Asia and Pacific subregion is projected to shrink by -0.7%, with a steep decline of -10% forecast for Singapore, -7.5% for Taipei,China, -3.5% for Malaysia, and -3% for Thailand. East Asia and South Asia are expected to fare comparatively better, with growth of 4.0% and 4.3% respectively. This resilience is due to a number of factors, ranging from less reliance on exports in many South Asian economies to the PRC’s large fiscal stimulus package to boost domestic demand.

Growth is expected to rebound in the region in 2010 and beyond, with a current forecast of 4.2% regional economic growth in 2010, with modestly positive growth of 0.5% forecast for the developed economies in Asia, growth of 2.2% predicted for Southeast Asia and the Pacific, growth of 5.0% for South Asia, and growth of 6.1% for East Asia.

2.2 Key Transmission Mechanisms to Asian Economies

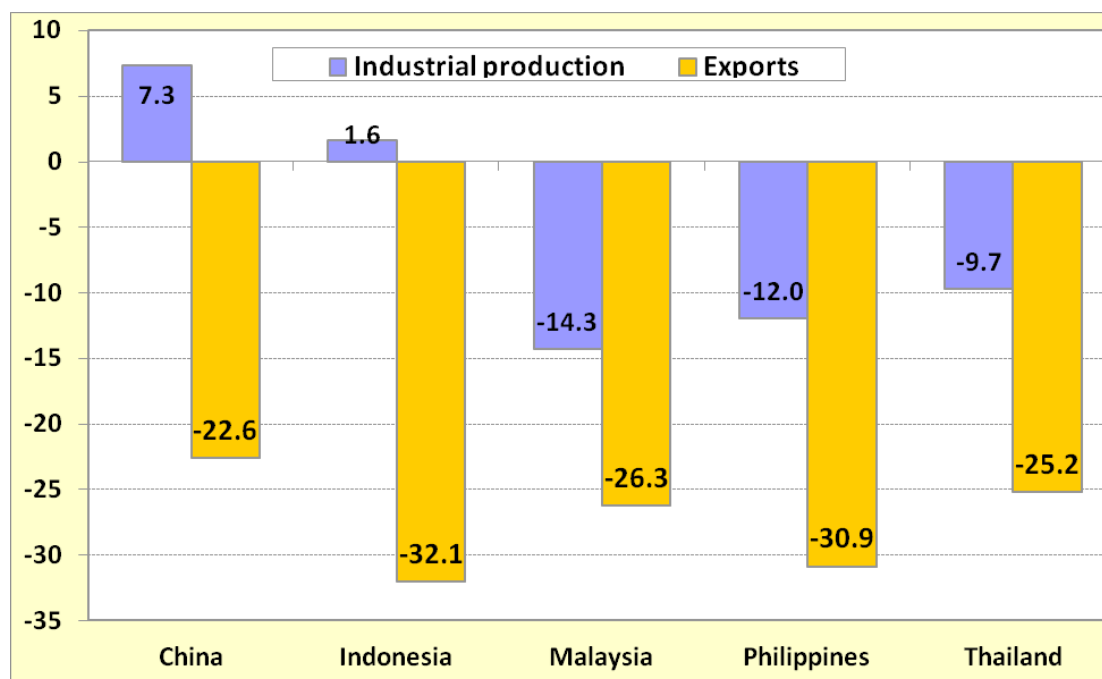
There are a number of ways in which the current crisis is being transmitted to Asian economies. Understanding the specific mechanisms through which industries and economies are affected is essential for assessing the likely labor market impacts and for designing appropriate policies to mitigate the adverse effects.

Exports have played a major role in Asia's phenomenal growth, with many Asian economies highly reliant on exports to earn foreign currency and fuel domestic development. Heading into the crisis, the value of manufacturing exports equaled more than 140% of gross domestic product (GDP) in Singapore, nearly 70% in Malaysia, more than 40% in Cambodia and Thailand, and more than 30% in the PRC, Korea, Philippines, and Viet Nam. At the other end of the spectrum, manufacturing exports make up less than 10% of the GDP in India and Pakistan and only around 11% in Indonesia (Figure A.1 in the appendix).

As consumers in developed economies abruptly cut back on spending in 2008 and the beginning of 2009, demand for Asia's exports fell sharply (Figure 2). In April 2009, exports from the PRC fell by 23% and from Thailand by 25%. Similarly, March 2009 export data from Indonesia, Malaysia, and Philippines indicated a year-on-year drop of 26–32%. Sales of labor-intensive manufacturing products including toys, games, footwear, and clothing are down sharply in the United States and Europe, as are sales of higher value-added goods such as computers and related equipment and automobiles (James et al. 2008). As total world trade volumes are expected to contract in 2009 by 11% (IMF 2009), this important source of growth in many Asian economies is unlikely to recover soon.

Accordingly, many Asian firms are sharply cutting production, causing an unmistakable rise in factory closures. After having plummeted in late 2008 and early 2009, industrial production has recently shown early signs of recovery in some economies such as the PRC and Indonesia, but factory output remains depressed in Malaysia, Philippines, and Thailand.

Figure 2: Year-on-year Change in Industrial Production and Exports, most recent month (%)



Note: Data are April 2009 for the People's Republic of China and Thailand and March 2009 for other economies.

Sources: National statistical offices.

Foreign direct investment (FDI) has been an important contributor to growth in many Asian economies, allowing them to move up the value chain through increased access to capital and to more advanced technologies. As a share of gross fixed capital formation, FDI comprises some 60% in Singapore, 52% in Cambodia, more than 40% in Fiji, and 25% in Viet Nam (Figure A.2). FDI accounts for a large share of capital formation also in Malaysia, Pakistan, Thailand, and Philippines. In 2008, growth in FDI turned negative in several Asian economies, including Indonesia, Singapore, and Thailand (UNCTAD 2009). Current estimates are that global FDI to developing countries will shrink by more than 30% in 2009, and, while Asia and the Pacific may continue to outperform other developing regions with regard to attracting FDI, the chance is slim that the region can avoid a decline in foreign investment (Lui 2009). In Cambodia, for example, FDI in 2009 is forecast to contract to US\$390 million, about half the amount in 2008 (World Bank 2009).

As migrant workers' incomes are at risk in the current economic downturn, so too are remittances, which are a vital source of income and foreign exchange for many Asian economies, particularly for poor households. Remittances comprise one-third of GDP in Tonga, 11% in the Philippines, and 5%–10% in Bangladesh, Sri Lanka, Viet Nam, and Mongolia (Figure A.3).

Remittance flows to developing economies began to slow in the third quarter of 2008, and the World Bank now forecasts an overall fall in remittances to these economies in 2009 of approximately 5% (Ratha and Mohapatra 2009). Compounding reduced remittances, official aid flows are likely to be affected by tighter budgets in advanced economies. This is likely to add pressure in the region's least-developed economies to government budget items directed toward economic development and poverty reduction.

3. LABOR MARKET AND SOCIAL CONSEQUENCES OF THE CRISIS

It is important to emphasize that the labor market and social impacts of the crisis will differ by economy depending on their context and, within each economy, by household and group. A detailed analysis of each economy and group is beyond the scope of this paper, but a few common patterns and particularly vulnerable groups emerge from the data.

3.1 Job Losses

The first of these patterns is worsening job losses. Despite efforts to avoid retrenchment, there has been a significant increase in job losses, particularly in terms of a reduction in wage employment. The most recent national data indicate a significant employment impact in the manufacturing sector for a number of economies. As expected, millions of workers in key export industries in the region have been retrenched. Many of these workers were employed in small and medium-sized enterprises that supply larger firms in national, regional, and global production chains.

In the PRC, job losses from large factory closures—caused not only the crisis but also by industrial restructuring to higher value-added production prior to the crisis—have forced more than 20 million retrenched workers to return to the countryside in pursuit of rural employment.² In Malaysia, the number of retrenched workers totaled 12,600 in the first

² The government of the PRC recently stated that around 20 million internal migrant workers—more than 15% of the estimated 130 million internal migrant workers—lost their jobs in recent months. While many of these workers will take up some form of employment to offset lost income and therefore not be unemployed in the statistical sense, this figure is indicative of a rapid decline in labor demand and the reality of rising unemployment and underemployment, reduced hours, and weakening job security (Johnson and Batson 2009). See: Ian Johnson and Andrew Batson: "China's Migrants See Jobless Ranks Soar", *The Wall Street Journal*, 3 February 2009.

quarter of 2009 (Ministry of Human Resources 2009).³ While the absolute number of retrenched workers may be small, it is nearly a fourfold increase from the 2008 average quarterly number of retrenched workers of 3,460. More than three-fourths of the retrenched workers in the first quarter of 2009 were in manufacturing.

The Indonesian Ministry of Manpower and Transmigration reported that job losses exceeded 51,000, while the Indonesian Employers Association reported over 237,000 layoffs between October 2008 and March 2009, with the textile and garment sector accounting for the bulk of them, followed by palm oil plantations, automotive and spare parts, construction, and footwear (Tempo Interactive 2009; Jakarta Post 2009). In Cambodia, employment in the garment sector contracted by 15% between September 2008 and February 2009 (Jalilian 2009). In Thailand, the number of people on unemployment insurance rose by 17.2% in January 2009 alone, after rising by 38.3% in 2008 over the previous year (Thailand Office of National Economic and Social Development Board 2009b).

Job losses in different industries combined with stalled new recruitment are pushing unemployment rates up in some Asian economies (Table 1). In the Philippines, the unemployment rate increased to 7.7% in January 2009 from 7.4% in January 2008, representing a 6.7% rise in the number of unemployed people. Meanwhile, the number of unemployed increased by 28.7% in Singapore between March 2008 and March 2009 and a staggering 73.3% in Thailand in the same period. By contrast, the Indonesian unemployment rate in February 2009 was lower than a year earlier. This apparently favorable trend is more nuanced, however, if one takes into the account the accompanying trend of a shift to informal and vulnerable employment—another major pattern that is discussed in section 3.2.

³ From the number of layoffs reported between 1 October 2008 and 14 May 2009, it appears that around 75% of retrenchments are permanent, while 25% of retrenchments took place under voluntary separation schemes.

Table 1: Unemployment Rate and Number of unemployed, selected Asian countries, 2008–09

	Unemployment rate, early 2008	Unemployment rate, early 2009	Number of unemployed, early 2008 ('000)	Number of unemployed, early 2009 ('000)	Change in number of unemployed (%)
Indonesia	8.5	8.1	9,430	9,260	(1.8)
Japan	4.0	5.0	2,650	3,340	26.0
Korea, Republic of	3.2	3.7	787	933	18.6
Philippines	7.4	7.7	2,675	2,855	6.7
Singapore	1.9	3.2	55	96	73.3
Thailand	1.7	2.1	606	780	28.7

() = negative.

Note: Early 2008 and 2009 refers to the month of February for Indonesia, April for Japan and Republic of Korea, January for the Philippines, and March for Singapore and Thailand.

Sources: National statistical offices.

Subcontract, casual, and temporary workers are often the most vulnerable to initial factory job cuts. Shedding these workers is easier and less costly than laying off regular staff. Occasionally, regulations relating to the termination of employment are not observed. More importantly, many non-regular female and male workers do not receive or qualify for the severance pay or unemployment benefits to which their regular counterparts are often entitled (Charoensuthipan 2009; Pitsuwan 2008).

Gender-disaggregated analyses indicate that women are likely to be harder hit by rising unemployment than are men. In Thailand, female employment in manufacturing decreased by nearly 130,000 in the fourth quarter of 2008 from the previous year, representing 63.2% of total job contraction in that industry (Thailand National Statistics Office 2009). This reflects in part the large share of women workers in key sectors that are hit by the crisis. Many of the export industries such as textiles, garments, and electronics are labor intensive and use mostly women workers, making them extremely vulnerable. Prior to the current crisis, there were 2–4 times more women than men in the textiles and garments industries in the Philippines, Thailand, and Viet Nam, and 5.3 times more women than men in the electronics industry in the Philippines (Dejardin and Owens 2009).

Further, youths are likely to be disproportionately affected by rising unemployment. Even in 2008, youths in Asia were more than three times as likely as older adults to be unemployed. In Southeast Asia, the youth unemployment rate stood at 15% in 2008. This figure could rise sharply, as young workers with little job tenure are likely to be among the first to be let go, while first-time jobseekers are likely to find themselves at a substantial disadvantage when competing against a rising pool of more experienced (and recently unemployed) jobseekers for increasingly scarce jobs. In the Philippines, the number of unemployed youths in January 2009 increased by 5.9% to 1.4 million more than in the previous year (Philippines National Statistics Office 2009). Similarly, in Japan, the year-on-year increase in the number of

unemployed youths in April 2009 soared by 23.4%, or an increase of 110,000 (Japan Statistics Bureau).

Moreover, in the PRC, an estimated 6.1 million new college graduates will enter the labor market in 2009, joining the 4 million from previous years who are still seeking employment (Economist 2009; Lawrence 2008). Rising and/or longer-term unemployment among youths not only causes the immediate waste of productive potential, it threatens to stymie the youths' productivity at later stages in their careers and thereby constrain productivity and output growth in the medium and long term.

The bleak economic outlook for 2009 means there is very little chance that a sufficient number of new jobs will be created in the region this year to keep up with expected labor force growth. Over 2009 and 2010, an estimated 51 million additional jobs will be needed to absorb Asia's growing labor force, with the largest numbers of jobs needed in Asia's most populous economies: 20.3 million in India, 10.9 million in the PCR, and 3.6 million in Indonesia. The largest rates of labor force growth in 2008–2010 are expected in Pakistan (6.1%), Cambodia (4.9%), and Philippines (4.9%) (Figure A.4). As the crisis is likely to substantially decelerate economic growth in these economies, labor market pressures will intensify.

Another vulnerable group that has been severely affected by the global crisis are international migrant workers, who are often among the first to be dismissed during an economic downturn (Abella and Ducanes 2009).⁴ Many overseas migrant workers are not retained upon the expiration of their contract and are expected to return home. However, migrant workers and local nationals often fill different segments of the labor market, and thus repatriating migrants may simply leave certain types of jobs unfilled despite economic contraction. Further, the combination of returning migrant workers and decreased demand for migrant workers from developing Asia can exacerbate the challenge of mitigating job losses and generating new employment in labor-exporting economies.⁵

Rather than laying workers off, some companies have resorted to reducing working hours or placing employees on unpaid leave. For some groups, however, such changes can be even more detrimental as they do not qualify for unemployment benefits or other government programs for the retrenched, and their incomes fall below the minimum wage.

3.2 Vulnerable and Informal Employment

A larger adjustment to retrenchments in developing Asia is the shift to informal and vulnerable employment. Where poverty is high and social safety nets are inadequate, workers who lose formal wage employment frequently are left with few alternatives except lower paying and informal work. One useful indicator that is likely to capture this potential shift from more formal, wage employment to less formal economic activities is "vulnerable employment," which is defined as the sum of own-account workers and unpaid family workers (ILOb 2009).⁶ Many such workers in developing economies—and sometimes in developed economies as well—do not enjoy social protection in case of job loss, personal or family illness, or other difficulties. They are less likely than formal wage employees to receive adequate income or have their fundamental labor rights respected.

4 For further discussion, see: Section 1 and Manolo Abella and Geoffrey Ducanes: *The Effect of the Global Economic Crisis on Asian Migrant Workers and Government Responses*, ILO Technical Note (Bangkok, ILO, 2009).

5 Migration flows from developing countries may slow as a result of the global economic crisis (Ratha, Mohapatra, and Xu 2008). see: Dilip Ratha, Sanket Mohapatra and Zhimei Xu: *Outlook for Remittance Flows 2008-2010: Growth expected to moderate significantly, but flows to remain resilient*, Migration and Development Brief No. 8 (Washington, DC, World Bank, November 2008).

6 For a discussion of this definition of vulnerable employment, refer to ILO: *Global Employment Trends: January 2009* (Geneva, 2009), p. 14. It must be noted that wage workers (employees) can also carry a high economic risk—particularly casual wage workers and workers on temporary contracts, who are often the first to be dismissed in downsizing.

Recent official data in Indonesia and Thailand corroborate the expansion of vulnerable employment. In Indonesia, the number of employees expanded by only 1.4% from February 2008 to February 2009, while the number of employers did not change much. On the other hand, growth in the number of workers whose employment status is considered vulnerable outpaced growth in wage employment during the same period. In particular, the number of casual workers not in agriculture increased by 7.3%. In Thailand, first quarter 2009 figures indicate that the number of wage employees grew by 104,000, or 0.6%, solely as a result of expanded government employment. Meanwhile, the number of own-account and contributing family workers combined increased by an astounding 566,000 over the previous year, or by 3.2% for own-account and 3.3% for contributing family workers.

Table 2: Recent trends in employment status, Indonesia and Thailand

	Indonesia			Thailand		
	Feb 2008 (millions)	Feb 2009 (millions)	Change (%)	Q1 2008 (millions)	Q1 2009 (millions)	Change (%)
Employees	28.52	28.91	1.37	17.10	17.21	0.61
Employers	24.58	24.61	0.00	1.04	1.04	0.55
with permanent workers	2.98	2.97	-0.34	-	-	
with temporary workers	21.60	21.64	0.19	-	-	-
Own-account workers	20.08	20.81	3.64	11.20	11.55	3.17
Casual workers	10.93	11.50	5.22	-	-	-
in agriculture	6.13	6.35	3.59	-	-	-
not in agriculture	4.80	5.15	7.29	-	-	-
Unpaid workers	17.94	18.66	4.01	6.41	6.62	3.29
Others	-	-	-	0.07	0.08	9.88
Total	102.05	104.49	2.39	35.82	36.50	1.91

(-) = negative, Q = quarter.

Note: Others category in Thailand includes members of producers' cooperatives.

Sources: Labour force surveys of Statistics Indonesia and Thailand's National Statistics Office.

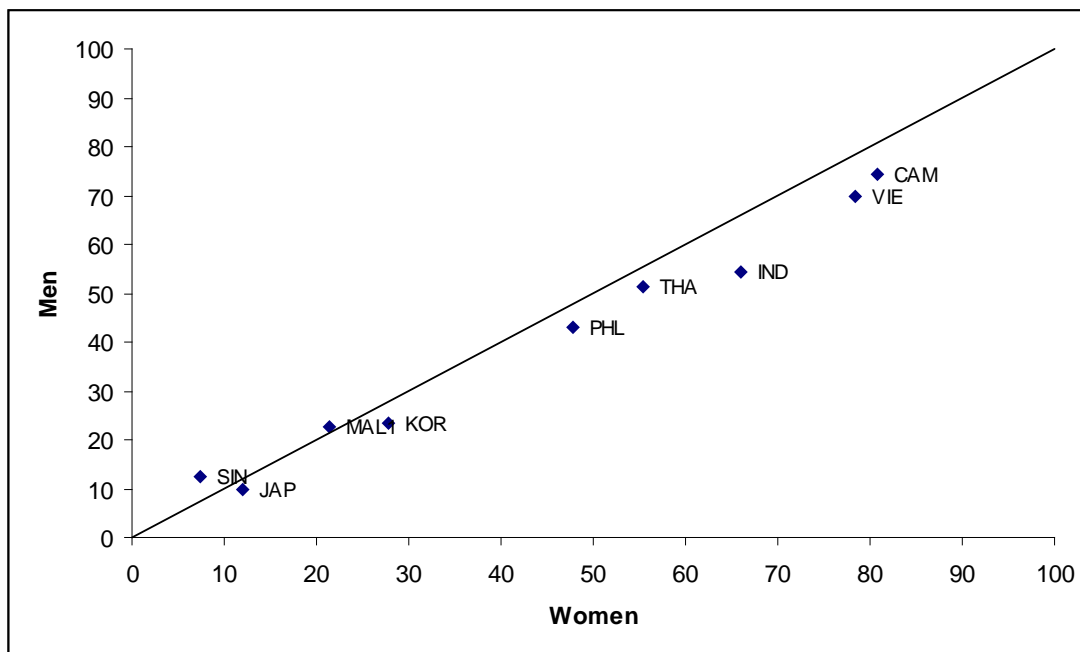
Although the main transmission channels have primarily affected urban labor markets, the consequent effect on the rural economy, employment, and household income should not be ignored. In many parts of developing Asia, job losses in export manufacturing have affected rural-to-urban migrants and their ability to support their rural families. For those retrenched workers unable to find new urban employment, seeking rural work is often the only remaining option. Reverse migration has taken place throughout the region, most notably in India and Viet Nam. The PRC, the factory of the world, has experienced unprecedented labor market pressures, as approximately 20 million migrant workers who lost jobs in factories and cities have returned to their home villages. To support themselves and their families, many of these returnees are likely to take informal work, given their lower skills and educational qualifications.⁷

Overseas migrant workers face the same circumstances or even worse. These workers, particularly newly arrived migrants, have in many cases invested heavily in getting recruited, traveling to a foreign country, and establishing themselves there (Abella and Ducanes 2009). As a consequence, returning to their home country is often not an option, and they may accept almost any terms just to retain their jobs. In cases where they have lost their jobs and work permits, they become undocumented and may turn to the informal or shadow economy.

⁷ According to a recent report, 95% of returning migrant workers are unskilled and have low educational qualifications (Johnson and Batson 2009; Rabinovitch 2008). See: Ian Johnson and Andrew Batson: "China's Migrants See Jobless Ranks Soar", *The Wall Street Journal*, 3 February 2009; Simon Rabinovitch: "China's great migration wrenched back by crisis", *International Herald Tribune*, 30 December 2008.

Even before the crisis, women were a disproportionately represented among vulnerable workers throughout the region, as illustrated in Figure 3.⁸ Further, given structural gender differences including less access to education and disadvantaged job-search experience, it may be more difficult for women to gain or regain access to formal employment, suggesting that women may lag behind men in moving out of vulnerable employment during an economic recovery.⁹

Figure 3: Women and Men’s Share of Vulnerable Employment, selected Asian countries



Note: Vulnerable employment shares are for the most recent year available. SIN: Singapore, JAP: Japan, MAL: Malaysia, KOR: Republic of Korea, PHL: Philippines, THA: Thailand, IND: Indonesia, VIE: Viet Nam; CAM: Cambodia
 Source: ILO estimates, based on data from national statistical offices.

The expansion of informal and vulnerable employment is likely to take place in the lower tiers of the informal economy, where earnings and working conditions are particularly bad (Fields 1990).¹⁰ This was evidenced in Thailand during the Asian financial crisis of 1997 and 1998. At that time, the number of household businesses in rural and peri-urban Thailand nearly tripled, but the heads of these businesses tended to be less educated and businesses had a median start-up capital of B1,250 (approximately US\$50), or a mere 3.4% of the median start-up capital for businesses started before the crisis (Paulson and Townsend 2008). Moreover, businesses founded after the crisis, in 1999–2001, had median profits close to zero, which was notably lower than the profits of those founded before the crisis (1992–97) and during the crisis (1998), suggesting that adverse effects on the most vulnerable are likely to linger even after economic recovery.

⁸ If the proportion of women and men in vulnerable employment were equal, data points in Figure 3 would fall on the 45 degree line.

⁹ Research in urban China suggests that women’s job-search efforts are handicapped by a lack of social networks, unequal entitlement to social reemployment services, and other factors, causing them to be unemployed longer (Du and Dong 2009). See: Fenglian Du and Xiao-yuan Dong: “Why do women have longer durations of unemployment than men in post-restructuring China?”, *Cambridge Journal of Economics*, 33(2), pp. 233-252.

¹⁰ For a discussion on dualism in the informal economy, namely easy-entry versus upper-tier informal activities, see: Gary S. Fields: “Labour Market Modeling and the Urban Informal Sector: Theory and Evidence,” in David Turnham, Bernard Salomé, and Antoine Schwarz, eds., *The Informal Sector Revisited*. (Paris: Development Centre of the Organisation for Economic Co-Operation and Development, 1990).

3.3 Falling Incomes, Rising Working Poverty

As many workers in vulnerable employment are more likely to be at the lower end of the income spectrum, trends in vulnerable employment are very much linked to trends in working poverty. A great deal of uncertainty remains as to how the current crisis will affect overall levels of poverty and working poverty in Asia, but some possible scenarios are presented in the next section. A tremendous impact will likely be felt by workers and households who have climbed just barely above the poverty line in recent years with new formal employment and are now very vulnerable to falling back into poverty as a result of the crisis. More than 52 million workers currently live just 10% above the extreme poverty line of US\$1.25/day, while more than 140 million live just 20% above that line (ILO 2008d).

There is already evidence of falling incomes and increasing vulnerability to working poverty in Asia. In India, prices for recyclable waste that unskilled workers collect and sell to scrap shops fell in many cases by 50% between October 2008 and January 2009 (Table 3). A survey of unskilled workers in Phnom Penh, Cambodia, revealed that real earnings have decreased considerably in 2009 compared with 2007, falling by over 20% for *cyclo* drivers, small traders, motor-taxi drivers, and other unskilled workers (Jalilian 2009). Another study on the impacts of the crisis in Cambodia projected the potential loss in real income due to the crisis to reach US\$677 million in 2009, affecting the incomes of 217,000 households, or over 1 million people (Chandararot et al. 2009). Given the large number of people clustered around the poverty line in many Asian countries, income and wage reductions of the magnitude witnessed for the specific jobs described above will have hugely detrimental effects on working poverty if they broaden to other parts of the economy.

Table 3: Prices of Waste in Ahmedabad, India
(Indian rupees per unit)

Type of Waste	October 2008	January 2009
Steel/Iron		
Nuts, bolts, screws	25	15
Waste steel	6	3
Plastic bags		
Type 1	18	6
Type 2	8	5–6
Paper		
Brown paper	3	2
Newspaper	8	4
Hard plastic		
Type 1	15	6–8
Type 2	13	3–4
Cloth		
Clean cloth	6	3
White cloth	20	12

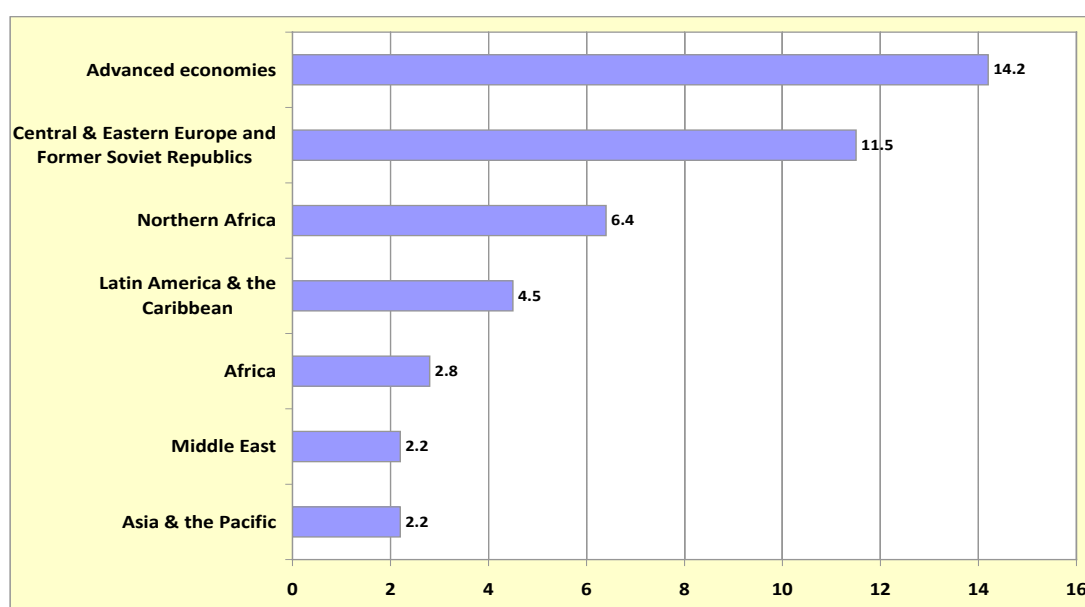
Source: Self Employed Women's Association., available at <http://www.wiego.org/reports/SEWA-report-Waste-Recyclers.pdf>

Between 2001 and 2007—a period of tremendous economic growth in Asia and the Pacific—average annual real wages in a sample of economies in the region grew at a rate of 1.8%, far below the average annual growth in labor productivity over the same period (ILO 2008a). Current evidence suggests that wages could remain stagnant or even fall during the crisis in some Asian economies. Relatively weak labor market governance in many economies in the region—the overwhelming majority of which have rates of collective-bargaining coverage of less than 15%—exacerbates the challenge of reaching negotiated solutions to support wages during the crisis (ILO 2008a). However, maintaining wage so that

purchasing power and consumer demand do not deteriorate is essential for recovery (Wilson 2009).

The situation in the labor market is compounded by relatively low public investment in social protection in developing Asia. Social expenditure as a share of GDP is only 2.2% in Asia and the Pacific, lagging behind other regions (Figure 4). As discussed in the next section, the shift to informal and vulnerable employment and the rise in working poverty are likely to be long lasting. Further, during times of economic crisis, poor households often cut back spending on health and pull children from school as education becomes less affordable. Children may be sent to work to supplement household income (Mosel and Sarkar 2009). While income alone is not the sole determinant of the decision to send a child to school or work, its influence is real. During the Asian financial crisis, the Philippines saw a drop in enrolment rates and a rise in child labor among 10–14 year olds (Lim 2000). More recently, rapid inflation and macroeconomic instability in Pakistan brought a rise in child labor as families have found few alternative coping mechanisms (IRIN News 2008).

Figure 4: Social expenditure as a percentage of GDP, most recent year available



GDP = gross domestic product.

Source: ILO 2009e.: *The Financial and Economic Crisis: A Decent Work Response* (Geneva, 2009), Figure 4 referencing IMF: *Government Financial Statistics* (2007).

Importantly, studies have shown that, when poor families have to choose between sending a boy or a girl to school, even under pre-crisis conditions, parents often choose to invest in educating their sons and retain their daughters' important household contributions. Further, from a medium- and long-term perspective, providing both girls and boys access to basic education is an absolute necessity to ensure that the future labor force has the foundation needed to engage in productive employment and help drive national growth and development.

The crisis and the treatment of workers, including migrants, have revealed many shortcomings in employment regulations, labor-relations regimes, and social-protection systems that deserve more attention in some economies. For these workers vulnerable to the crisis, the main concern must be upholding their rights at work and ensuring fair treatment and access to social protection.

3.4 Delayed Adjustment in the Labor Market

Having examined the labor market and social impacts to date, it is important to bear in mind that the full impacts may yet to be realized and that the consequences for Asia's workers may be deep and protracted. In past economic and financial crises, various indicators in the labor market returned to pre-crisis levels on average only 4–5 years after output recovery (ILO 2009d). This section reviews this delayed recovery in the labor market by looking back at the Asian financial crisis.

The Asian financial crisis delivered a tremendous shock to numerous economies in the region. GDP plummeted in Indonesia by 13.1%, Malaysia by 7.4%, and Thailand by 10.5% in 1998 (Table 4).

Table 4: Gross domestic product annual change, selected Asian economies, 1995–2000(%)

	1995	1996	1997	1998	1999	2000
Indonesia	8.2	7.8	4.7	(13.1)	0.8	5.4
Republic of Korea	9.2	7.0	4.7	(6.9)	9.5	8.5
Malaysia	9.8	10.0	7.3	(7.4)	6.1	8.7
Philippines	4.7	5.8	5.2	(0.6)	3.4	6.0
Thailand	9.2	5.9	(1.4)	(10.5)	4.4	4.8

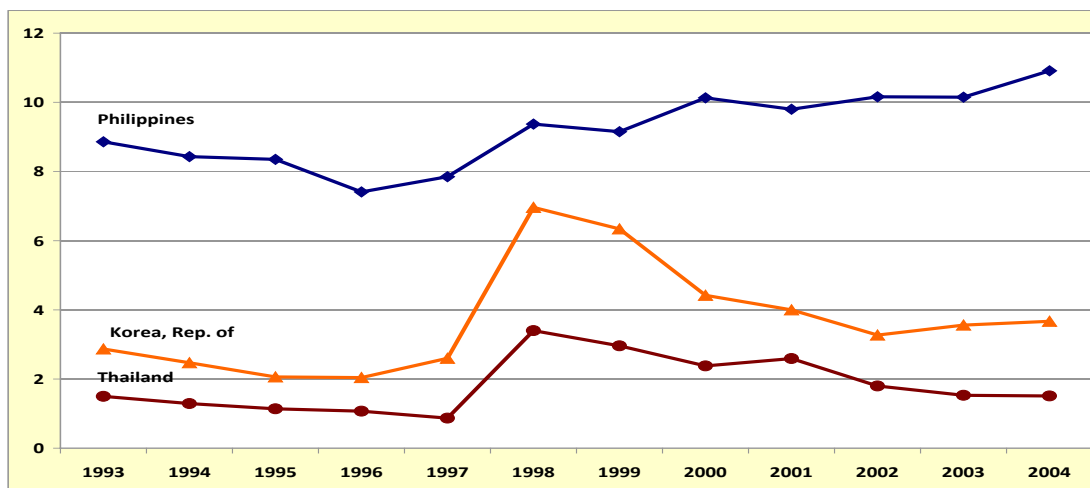
() = negative.

Source: IMF 2009. World Economic Outlook Database (April 2009).

Although not at the epicenter of the crisis, the Philippines was not spared, as its economy also contracted by 0.6%. By 1999, the crisis-affected economies began to stabilize and recovery was underway, thanks in part to an upturn in exports. Growth in the Korea reached 9.5%, while Malaysia's economy expanded by 6.1%. By 2000, GDP in the Philippines grew at 6.0%, faster than the rate of growth in the several years prior to the crisis, while Indonesia achieved 5.4% GDP growth and Thailand 4.8%.

Despite the relatively rapid economic upturn, recovery in the labor markets of crisis-affected economies was not as swift. Figure 5 illustrates the unemployment trend that took place before, during, and after the crisis. In Korea, the unemployment rate remained below 3.0% from 1993 to 1997 and skyrocketed to 7.0% at the peak of the crisis in 1998. It did not drop to pre-crisis levels until 2002, or 3 years after the quick and remarkable economic recovery in 1999. Similarly, the unemployment rate in Thailand averaged 1.2% from 1993 to 1997 but nearly tripled to 3.4% in 1998 and fell below 2.0% only in 2002. In the Philippines, unemployment reached a 10-year low of 7.4% in 1996 but rapidly increased to 9.8% in 1998 and, by 2004, had yet to fall back to pre-crisis levels. In the case of the Philippines, the unemployment trend was also shaped by rapid labor force growth of 15.8% from 1998 to 2004 (ILO 2009a), which exerted tremendous pressure on new employment creation after the crisis.

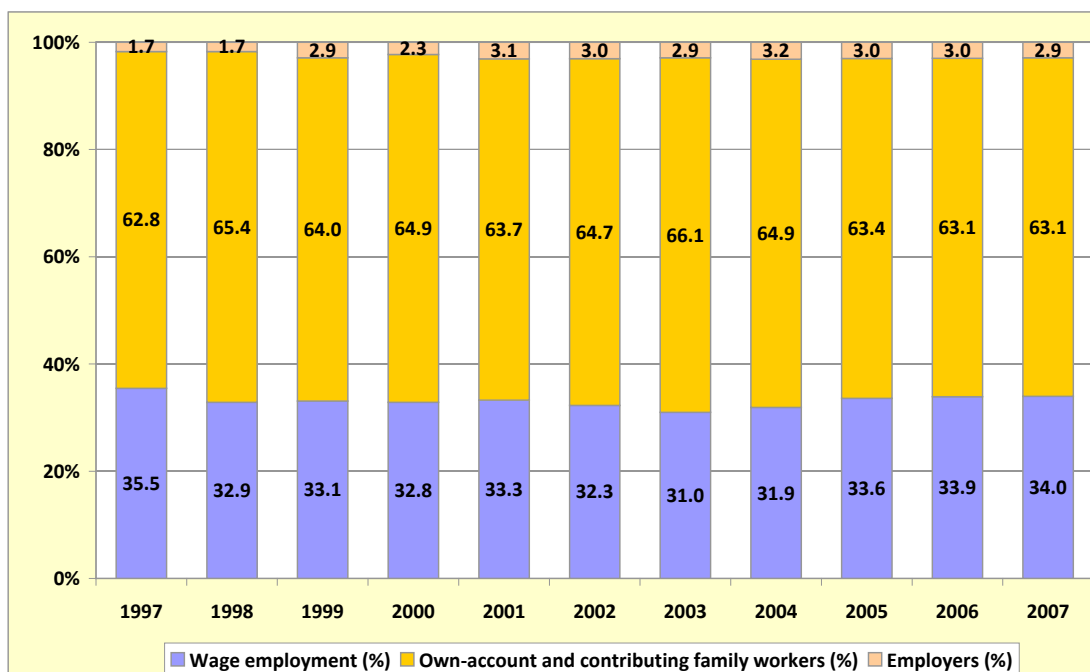
Figure 5: Unemployment in Philippines, Republic of Korea, and Thailand, 1993–2004
(% of labor force)



Source: ILO 2008b.; Key Indicators of the Labour Market (KILM), 5th Edition; ILO: Laborsta, 2008.

Moreover, the Asian financial crisis impacted labor markets in the region in terms of not only the level of unemployment but also of a shift in the type of jobs held by employed workers. In Indonesia, unemployment increased from 4.7% in 1997 to 5.5% in 1998 (ILO 2008b). The larger impact, however, was on the number of workers in vulnerable employment; in 1 year alone, from 1997 to 1998, formal wage employment shrank by 1.5 million (4.9%) while the number of workers categorized as own-account or contributing family workers increased by 3.7 million (6.8%). In addition, despite the economic recovery that began in 1999, the share of own-account and contributing family workers continued to increase (Figure 6). The economic upturn did not translate into an equivalent rise in the share of formal wage employment, and the share of own-account or contributing family workers approached the pre-crisis level only in 2006.

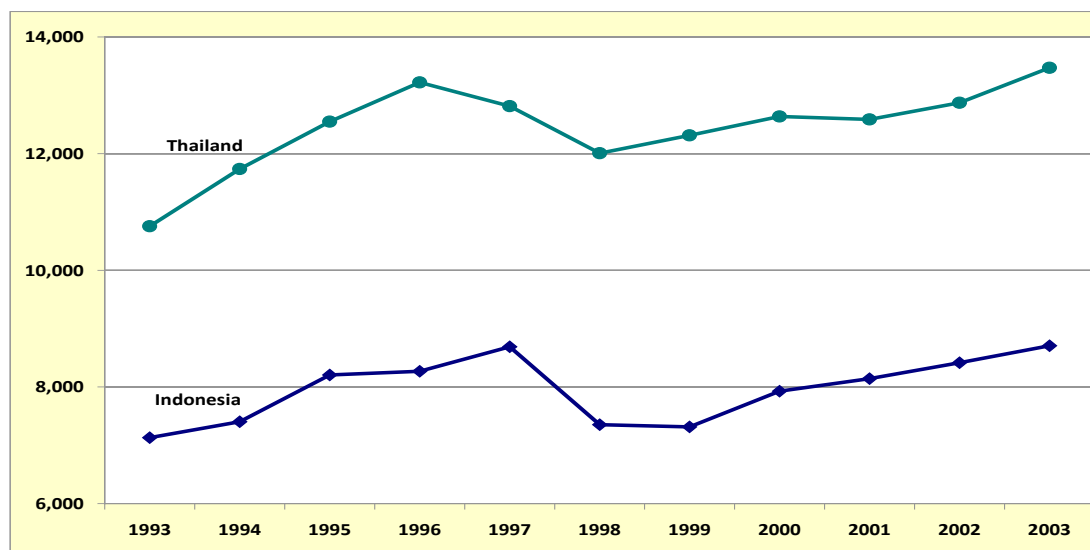
Figure 6: Employment by Status in Indonesia, 1997–2007 (%)



Sources: ILO 2008b.: Key Indicators of the Labour Market (KILM), 5th Edition; ILO: Laborsta, 2008.

After the crisis, labor productivity in Indonesia dropped by 15.4% and returned to pre-crisis levels only in 2003 (Figure 7). Similarly, productivity in Thailand peaked in 1996 before falling by 9.2% and gradually recovering to surpass the pre-crisis level in 2003. Real manufacturing wages also remained depressed for several years (ILO 2009d).

Figure 7: Output per Worker, Thailand and Indonesia, 1993–2003 (1990 US\$)



Source: The Conference Board and Groningen Growth and Development Centre 2009., Total Economy Database (January 2009).

A larger concern was the increase in poverty and working poverty. Despite Indonesia's tremendous progress in reducing poverty in the decades prior to the crisis, poverty levels increased by over one-third during the crisis and fell back to pre-crisis levels only in 2003 (World Bank 2006). In Thailand, the share of those living below the US\$2/day poverty line grew during the crisis and dropped below pre-crisis levels only in 2002 (World Bank 2008).

3.5 Estimates of Impact on Regional Labor Markets

Following a major downward revision of global economic growth forecasts in 2009, the International Labour Organization (ILO) recently released updated projections of the impact of the global economic crisis on the world's labor markets, focusing on projecting unemployment, vulnerable employment, working poverty, and labor productivity according to three scenarios (ILO 2009c).¹¹

With the economic growth outlook for the Asia and the Pacific having deteriorated, has the labor market outlook also deteriorated further compared with prior expectations? In January 2009, the ILO projected that total unemployment in Asia and the Pacific could increase by between 8.7 million and 28.3 million from 2007 to 2009. On the basis of updated economic growth projections and newly available labor market data, this range has been slightly narrowed to between 9.1 million (scenario 1) and 26.3 million (scenario 3), with a central scenario 2 of 13.8 million. The ILO's current projection for unemployment in 2009 in Asia and the Pacific is between scenarios 2 and 3. Significant volatility and uncertainty in economic growth forecasts and insufficient data for many economies in the region make more precise projections of the increase in unemployment impossible at this time.

¹¹ See: ILO: *Global Employment Trends Update*, (Geneva, May 2009). Available at: http://www.ilo.org/wcmsp5/groups/public/---dareports/---dcomm/documents/publication/wcms_106504.pdf. Details on the methodologies used in constructing the scenarios are provided in Annex 1.

As the current global crisis represents a break in historical unemployment series for many countries, however, the lowest unemployment scenario, obtained by applying the historical relationship between GDP growth and unemployment, is no longer viewed as realistic. At the same time, large fiscal policy stimuli and other responses taken by many governments in the region reduce the likelihood of unemployment increasing towards the upper range given by scenario 3.

In terms of subregional projections, the unemployment rate in the developed economies in Asia is projected to rise to 4.9%–5.7% in 2009, up from 3.9% in 2007 and 4.0% in 2008. East Asia's unemployment rate may increase to 4.6%–5.8%, up from 3.9% in 2007. Unemployment rates are not currently expected to rise by as much in Southeast Asia and the Pacific or South Asia as in other parts of Asia. In Southeast Asia and the Pacific, the current projection is for an unemployment rate of 5.4%–6.2%, compared with 5.4% in 2007 and 2008, and in South Asia the current projection is for an unemployment rate of 5.1%–5.8%, versus 5.2% in 2008.

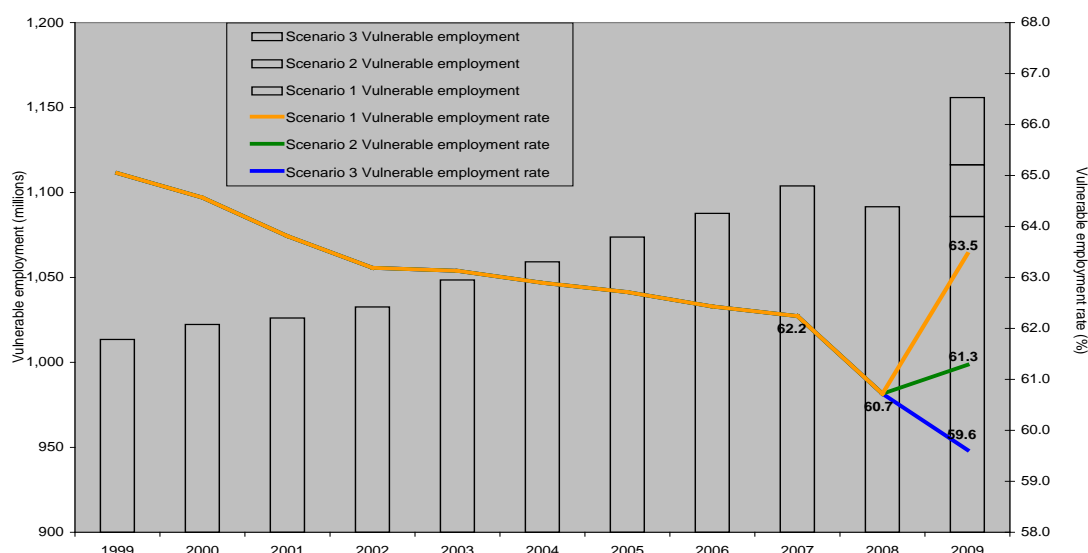
As noted above, young workers are being hit hard. In the region as a whole, the youth unemployment rate is projected to increase to 11.1%–13.1% in 2009, up from 10.3% in 2007. Southeast Asia has the highest youth unemployment rate in the region, and this could rise to 15.7%–18.1% in 2009 from 14.8% in 2007.

With women often making up a disproportionate share of jobs in export-oriented manufacturing in Asia, they face a steeper rise in unemployment than do men as a result of the crisis. The unemployment rate for women in the region is projected to rise from 4.4% in 2007 to 4.9%–5.8%. For men, it is expected that the unemployment rate will rise from 4.7% in 2007 to 5.0%–5.9%. Across all three scenarios developed by the ILO to gauge the likely impact of the crisis on unemployment, women are projected to account for a larger share of the region's total unemployed in 2009 than in 2007.

Prior to the onset of the crisis, more than 62% of workers in Asia and the Pacific were in vulnerable employment, with more than 76% of South Asia's workers in this group. In Southeast Asia and the Pacific, 62% of workers are estimated to be in vulnerable employment, while in East Asia the share of vulnerable workers is more than 55%. Because the requisite data are not available for many countries in the region for 2008 and 2009, it is not possible to provide precise estimates of the impact of the crisis on vulnerable employment. However, the three scenarios developed by the ILO indicate that the number of workers in vulnerable employment in the region could range between 1.1 billion and 1.2 billion in 2009, versus 1.1 billion in 2007. This would represent a vulnerable employment rate of between 59.6% and 63.5% for the region as a whole (Figure 8).¹²

¹² The lower bound estimate represents a decrease in the share of vulnerable employment. This estimate is based on the historical relationship between economic growth and vulnerable employment. Because the current crisis represents a clear break in the historical series, this scenario is not viewed as likely in the absence of considerably better-than-expected economic growth and labor market outcomes.

Figure 8: Vulnerable Employment in Asia and the Pacific based on Three Scenarios



Source: ILO 2009f.

In 2007, a year of robust growth in Asia, an estimated 890 million workers in Asia lived with their families on less than US\$2 per day, with 420 million of them living in extreme poverty of less than US\$1.25 per day. Subregional figures put this massive challenge in perspective. In South Asia, the number of workers living on less than US\$2 per day was 15 times greater than the number of unemployed. In Southeast Asia and the Pacific, the ratio was more than 9, while in East Asia it was above 8.

The precise impact of the economic crisis on the level and degree of working poverty in the region is difficult to pin down because of the absence of reliable and timely poverty estimates and labor market information. The ILO produced three scenarios for working poverty. Scenario 1 was generated by taking the average relationship between poverty and per-capita GDP over the 1980–2006 period and projecting this forward on the basis of 2009 GDP growth projections. Scenario 2 projected working poverty on the assumption that individuals living on the fringe of poverty (5% above the poverty line in 2008 and 10% above the poverty line in 2009) would fall into poverty. Scenario 3 projected working poverty on the assumption that individuals living 10% above the poverty line in 2008 and 20% above the poverty line in 2009 would fall into poverty. Notably, across all three scenarios, the number of workers living on less than US\$2 was projected to rise in both South Asia and Southeast Asia and the Pacific. In South Asia, the three scenarios produced a range of 494 million to 538 million in 2009, versus 480 million in 2007. In Southeast Asia and the Pacific, the scenarios produced a range of 146 million to 178 million in 2009, versus 144 million in 2007.

In the long run, progress towards reducing working poverty requires increases in labor productivity, since the poor typically do not suffer from lack of work but rather from low productivity and consequent low earnings. Across all three scenarios developed by the ILO for 2009, labor productivity (measured as output per worker) was projected to decline in Southeast Asia and the Pacific. In South Asia, the highest potential rate of productivity growth in 2009 is 2.8%, versus average annual growth in productivity of 5% in 2000–2007. East Asia is expected to see a substantial slowdown in productivity growth this year. While this trend is expected to reverse once economic growth resumes, the substantial reduction in labor productivity poses a threat to employment quality, including earnings, and working conditions.

4. NATIONAL POLICY RESPONSES TO THE CRISIS

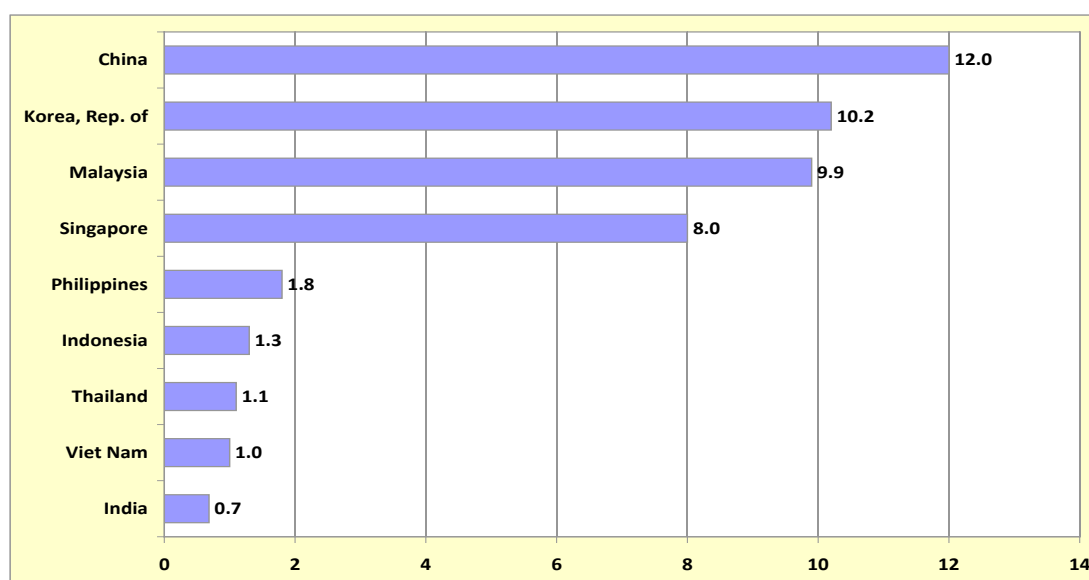
4.1 Fiscal Policy: Size

In the second half of 2008, the rapid spread of the financial crisis through global credit markets prompted unprecedented initiatives (capital injections, liquidity measures, and deposit guarantees) aimed at restoring confidence in the financial system, especially in those economies in Asia and the Pacific that were closely integrated into global financial markets. Many central banks in the region began lowering interest rates, and rates have continued a downward march, though inflation concerns and currency weakness have prevented some central banks from more aggressive easing rates. In November 2008, however, evaporating orders for exports, decelerating output growth, and the grim outlook for 2009 shifted the policy focus to fiscal measures to increase aggregate demand.

Several countries in the region that had entered the crisis on a fairly solid footing—with large reserves and relatively little foreign or domestic debt—announced fiscal stimulus packages. By December, the PRC, India, Korea, Malaysia, and Philippines had already rolled out bold policies to increase aggregate demand. Within less than a month, India announced a second package. Indonesia, Thailand, and Singapore also unveiled fiscal stimulus programs, and Malaysia announced its second package in March 2009.

The size of fiscal stimulus packages varies greatly, ranging from US\$586 billion in the PRC to Viet Nam's US\$1 billion. The PRC measure accounts for 12% of the economy's GDP (Figure 9). Singapore and Malaysia each plan to spend 8%–10% of their GDP to increase demand. At the other end of the spectrum, India's two fiscal packages together equal less than 1% of the GDP.

Estimates of size must be viewed with some caution, however. First, it is not always clear how much of a package is new spending versus previously planned spending. Second, packages in some countries, notably the PRC and the Philippines, are financed not only from public resources but also from nongovernment investment that may or may not become available in a timely manner. Third, the timeframe in which stimulus packages will be implemented varies. For most economies, the timeframe is 1 year. But for some, like the PRC, the time frame is 2 years, and for Singapore and Korea it is even longer. Fourth, some packages include measures such as loan guarantees that are primarily the task of monetary policy not fiscal policy, making it difficult to disentangle fiscal measures from financial efforts. Fifth, some governments had already put in place policies and programs that are now mitigating the crisis but are not considered part of the fiscal response.

Figure 9: Fiscal Stimulus Packages as a Share of 2009 GDP (%)

PRC = People's Republic of China.

Notes: For India, Malaysia, and Republic of Korea, combined percentage of two stimulus packages.

Sources: World Bank 2009; authors' estimates.: *East Asia and Pacific Update: Battling the Forces of Global Recession* (April 2009).

4.2 Fiscal Policy: Composition

As does the size of the fiscal packages, their composition varies greatly across developing Asia. Most stimulus packages emphasize public spending, especially investment in infrastructure and maintenance. Public spending accounts for over 90% of the stimulus package in the PRC, over 65% in Thailand and Viet Nam, and 40%–50% in Korea, Malaysia, and Singapore (World Bank 2009).

The emphasis on public spending on infrastructure reflects the widely shared assessment that such measures tend to have a significant direct and indirect multiplier effects in the short run on both output and employment.¹³ The direct employment effect is evidenced as new jobs are created by a particular spending measure. The indirect effect arises partly from increased consumption on the part of newly recruited workers, which stimulates other industries, and from spillover of increased public spending into other sectors through intermediate inputs. Infrastructure investments provide additional benefits, as they contribute to eliminating growth bottlenecks and reducing rural–urban development gaps and thereby boost domestic consumption.

Public spending to support the poor and vulnerable has expanded in many countries, but these measures constitute on average a small share of additional public spending. Measures include unconditional and conditional cash transfers to poor and low-income families (PRC, Indonesia, Philippines, Thailand, and Singapore), various schemes supporting child education and health (Indonesia and Philippines), subsidized utilities (Thailand), as well as support for housing in many economies. The PRC has also begun to tackle longer-term challenges, including closing the rural–urban divide by extending medical coverage to 200 million uninsured people through an additional package for health-care reform (Hornby and

¹³ A review of members of the Organisation for Economic Co-operation and Development (OECD) suggests that, under normal circumstances, fiscal multipliers are around 1 for public spending and half that for tax measures, with lower multipliers in more open economies (OECD 2009). See: OECD: *OECD Economic Outlook* (Paris, OECD, 2009).

Chiang 2009). Even countries with limited or no fiscal space have taken measures to increase the budget allocations for social-transfer programs.¹⁴

Tax reductions and income transfers, on the other hand, rarely have direct output or employment effects. Their indirect impact depends on how firms and households react to increased income. In the current environment, firms face not only a sharp fall in demand but also unprecedented uncertainty regarding the future. In such a situation, they often take a wait-and-see attitude with respect to investment, and households are likely to exhibit similar behavior in consumption (Spilimbergo et al. 2008). Therefore, across-the-board incentives aimed at businesses or households, such as subsidies to firms and reductions in corporate and income taxes, are likely to have only a moderate, short-term effect on growth and jobs. Moreover, in developing Asian countries with a large informal economy, tax and income policy tools have limited reach to businesses and workers operating in the informal economy or impact on them. Despite the weak multiplier effect of tax measures, cuts in corporate, sales, and income taxes have been the second-largest component of the stimulus measures.

If fiscal measures target credit-constrained businesses (including small firms) and liquidity-constrained consumers who are likely to spend more (notably the poor, the unemployed, and low-income households), then the short-term multiplier effect of the stimulus is likely to be higher. Measures along these lines include loans for credit-constrained small firms in India, Korea, Thailand, and Viet Nam; increased budget allocation for microfinance in Indonesia; and various schemes to assist specific industries in several economies.

In undertaking fiscal stimulus policy measures, it is also critical to take into account both the short-term impact on aggregate demand and measures to enhance economies' growth potential in the medium and long term, so that the increase in fiscal spending today is covered by higher fiscal revenues without requiring prohibitively high taxes in the future. In this respect, a focus on maintaining productive employment, income, and household purchasing power, combined with supply-side measures including education and skills training and other active labor market policies, could provide for more comprehensive crisis response and recovery measures.

4.3 Fiscal Stimulus and Productive Jobs

Some governments have announced explicit measures to assist workers and employers as part of their fiscal package. Examples include subsidized employment in Korea, training programs in Singapore, and reduction in unemployment insurance contributions and other payroll taxes to minimize job losses in Indonesia; temporary job-loss subsidies to assist laid-off workers in Viet Nam; skills training for retrenched workers in Malaysia and Thailand; job-search assistance and financial support to laid-off migrant workers to relocate to rural areas in the PRC; and direct public sector job creation for unemployed and graduates in many economies.

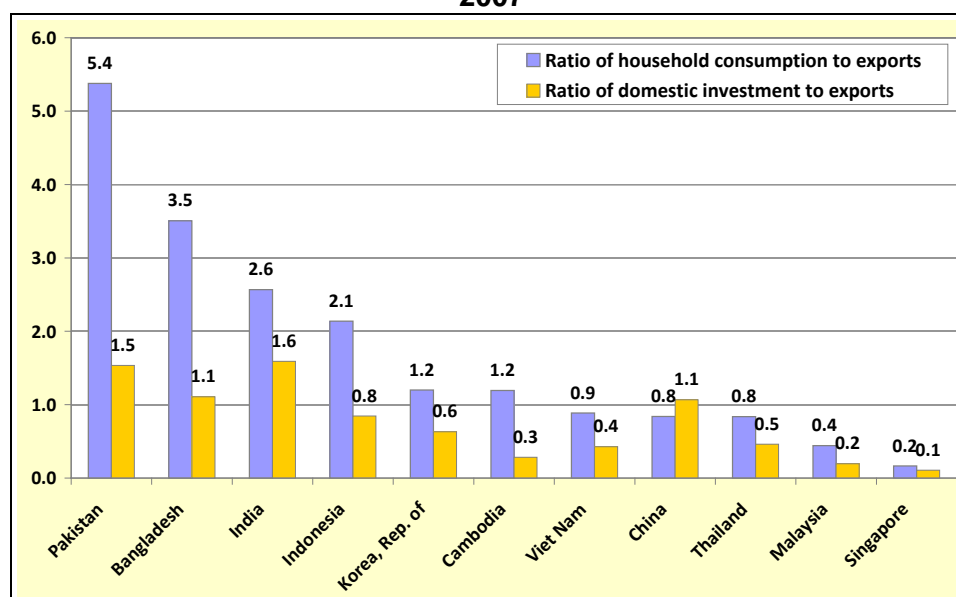
These measures are often relatively small components of stimulus packages, however, and longer-term measures to enhance productivity such as skills training are often lacking. Further, few fiscal packages have explicit targets for job creation. The exceptions are Indonesia (2.6 million jobs), Korea (creating green jobs under the Green New Deal initiative), and Singapore, where a key objective of the stimulus is helping Singaporeans keep their jobs and support their families.

Box: Pressures on Domestic Demand

¹⁴ Pakistan plans to increase spending on social protection from 0.3% of GDP in 2008 to 0.9% of GDP in 2009 and is expected to expand the coverage of electricity subsidies for the poor and other poverty-alleviation measures through the Benazir Income Support Programme (IMF Survey Online 2008). See: "Pakistan Gets \$7.6 Billion Loan from IMF", IMF Survey Online, 24 November 2008.

Although the region's export performance tends to receive a great deal of attention, domestic demand—the sum of private consumption, public expenditure, and investment by firms—typically comprises a much larger share in gross domestic product than exports. The box figure reveals that some countries have large domestic consumer markets, with household consumption more than five times the value of exports in Pakistan, for example, and domestic investment 1.6 times the value of exports in India. Although these countries are less affected by the crisis through exports, they face the serious threat of declining private consumption and investment. On the other hand, Malaysia and Singapore stand out with very small consumer markets relative to their whole economies; in Singapore, domestic consumption is less than a fifth the value of exports, and investment is one-tenth. For these economies, the main challenge is that their relatively small domestic consumer and investment markets could limit the impact of fiscal stimulus measures.

Box Figure: Ratio of Household Consumption and Domestic Investment to Exports, 2007



PRC = People's Republic of China.

Source: World Bank 2008.: World Development Indicators 2008.

While the policy response has been swift, a number of challenges remain. First, support for employment, skills development, and social protection is clearly insufficient. Second, in some economies, there have been efforts to engage employers' and workers' organizations, but more could be done.¹⁵ Third, weak administrative and institutional capacity to implement packages rapidly and effectively appears to be a major constraint in some economies. Fourth, if current packages fail to boost domestic demand (see Box) and protect the poor, many governments will not have resources for subsequent measures. The current crisis is already reducing government revenues and weakening fiscal positions. There is, therefore, a need for transparency and impact evaluation. The results of such an assessment could boost public confidence that the fiscal stimulus measures will deliver sufficient employment and support for the poor and vulnerable. It would also help policy makers to refine the stimulus packages to maximize their economic, employment, and welfare impact.

¹⁵ Examples include multi-stakeholder meetings in the Philippines, sector-specific tripartite discussions in India, and a tripartite agreement through the National Wages Council in Singapore.

5. POLICY IMPLICATIONS

5.1 Job-Rich Public Spending Programs

A recent assessment of the estimated employment effects of fiscal measures has revealed that “the greater the employment orientation of the measure, the stronger the stimulus for the real economy” (ILO 2009e). In particular, public spending on employment-intensive areas tends to have a high multiplier. Public investment in infrastructure is a major opportunity to both generate employment and address some development challenges.

In those economies where the fiscal stimulus focuses on investment in infrastructure and maintenance, a significant share of the new jobs will be in construction. Employment creation in construction is a positive outcome, as the economic crisis has hit the construction sector hard in many economies. Further positive employment effects can be generated if resources are allocated to rural areas. Decent job opportunities in the countryside were scarce prior to the crisis, and they are likely to become even scarcer as urban workers leave factories and cities and return to their home villages. Therefore, infrastructure investment directed to rural areas has great potential for poverty alleviation as this will generate employment. To effectively improve employment and productivity, however, infrastructure projects need to focus on critical development bottlenecks and use existing domestic supplies and skills.

Most new employment opportunities in construction are likely to be taken up by unskilled and semi-skilled workers. Infrastructure works may have a gendered effect on job creation, as they traditionally attract mainly male workers, while most of the retrenched workers in export-oriented industries like electronics, textiles, and garments are young women. Therefore, policy makers need to pay attention not only to the employment intensity of stimulus measures, but also to the composition of the jobs they are likely to create, if they want to succeed in spreading employment creation as widely as possible across categories of workers.

Spreading public spending and job creation broadly can contribute to rebalancing some economies, shifting away from a heavy reliance on export-oriented growth to development based on both export growth and domestic demand. In this respect, investments in free education, affordable health care, and pension systems are essential, as they provide basic economic and social security to citizens, encouraging them to consume more and thereby boosting demand in the domestic economy. This will not only support the recovery of national economies but also help millions to overcome poverty.¹⁶ Beyond infrastructure, increased investment is equally critical in other labor-intensive social services like child care and, in ageing societies such as the PRC, Singapore, and Thailand, support for the elderly.

5.2 Speed of Implementation

Packages must be implemented quickly because the need for action is urgent. This calls for actions that can be rolled out rapidly and have significant employment impacts almost immediately. Front-loading packages with public spending on projects that are already approved—especially in infrastructure, housing, maintenance, health, and education—tends to have immediate and strong multiplier effects. Scaling up existing social transfers to protect the poor and most vulnerable, and increasing other welfare payments to low-income families, can all be implemented quickly. Government purchases of goods and services can be introduced rapidly, but there may be delays before the impact of increased spending benefits labor.

¹⁶ This stance was supported by global trade unions (ITUC, TUAC, and Global Unions 2008). See: ITUC, TUAC and Global Unions: *Trade Union Statement to the ‘G20 Crisis Summit’: The Global Unions ‘Washington Declaration’* (November 2008).

5.3 Coordinated Approach to Crisis Response

Fiscal stimulus packages aimed at promoting aggregate demand in individual economies can have regional and international spillover effects through trade and investment. This is particularly the case for the more open Asian economies with high propensities to import. Such spillovers suggest the importance of coordinated global and regional approaches to fiscal stimulus packages to address individual country concerns on import leakage and to foster greater cost effectiveness in measures. In addition, trade and investment have significant influence on employment in individual economies, suggesting the need for greater global and regional policy coordination on employment and social protection policies in addition to fiscal policies. With regard to regional approaches, Asia and the Pacific has a range of regional collaboration approaches, including the Chiang Mai Initiative, upon which the region can draw.

5.4 Efficiency and Coverage of Social Protection: a Social Floor

As the crisis unfolds, the risks that people face are exacerbated by limited social protection. Supporting workers and their families through well-designed social policies should be a key component of stimulating the economy and averting a social crisis. Many governments recognize the importance of social protection and have stepped up their efforts in their overall policy response. However, measures have often failed to reach the groups worst affected by the present crisis: the nearly poor who recently escaped poverty and who now face the prospect of slipping below the poverty line as they lose their jobs in export-oriented industries.

To help them, unemployment insurance is an automatic stabilizer that can cushion the impact of the economic shock on workers in the formal economy and help maintain aggregate demand. Evidence suggests that automatic stabilizers have a more prompt and consistent countercyclical effect than do discretionary policies (IMF 2008), and that their fiscal cost automatically declines when the number of beneficiaries falls back. Unemployment insurance can slow the transmission of the crisis from urban to rural areas, especially where large numbers of rural migrants have lost jobs in export-oriented industries.

However, very few countries in the region have a proper unemployment insurance system, and even higher-income economies such as Malaysia and Singapore are not exceptions (Source: Authors).

Table A.2.2). Another reason for the limited role of unemployment insurance in developing Asia is that wage employees in the formal economy are a relatively small segment of workers. In Viet Nam, where unemployment benefits were recently introduced, wage-earning workers account for less than 22% of total employment (Ministry of Labor, Invalids, and Social Affairs 2007).

Introducing unemployment insurance schemes is, despite their initially limited reach, an important step toward both protecting workers and supporting domestic demand during the crisis. Moreover, improving the responsiveness of existing unemployment benefit systems can improve the effectiveness of policy response to the downturn. This can be done, for example, by extending the length of, or relaxing the qualifying requirements for, unemployment insurance benefits, as was recently seen in Japan and a few other economies. Another example is the use of unemployment insurance to subsidize retraining programs in companies in Hubei Province of the PRC, as an alternative to retrenchment, and to reward enterprises that have paid insurance premiums for more than 2 consecutive years without layoffs (Lee 2009).

Traditional social transfer programs targeting the poor and vulnerable vary in their design, ranging from food provision to subsidized utilities and cash transfers. The effectiveness of these measures depends on how well they target needy households and on their capability

to minimize administration costs and leakage to the non-poor. Experience shows that across-the-board food and utility subsidies often come at a significant fiscal and economic cost. They are not easily reversed and have often have only a modest impact on poverty (World Bank Development Research Group 2008). Further, many schemes are unresponsive to changes in the beneficiaries' need for assistance (Ravallion 2008). A promising approach to address these deficiencies is to strengthen the self-targeting component of existing programs, a move that encourage beneficiaries to enroll when in need and drop out when better opportunities arise.¹⁷ One such example is India's National Rural Employment Guarantee Scheme, which offers 100 days of work per family in rural areas at the minimum wage for agriculture and is complemented by a social security scheme in the informal economy and a national health insurance scheme for unorganized workers. Introducing employment-guarantee programs in urban areas can provide safety for urban informal sector workers affected by the crisis.

Supporting poor households to keep their children in school must be part of the policy response in low-income economies. Lower school fees can keep children in school, while support to family health can further mitigate the potentially long-term impact of the crisis. Also important are extending school meal programs (food for education) and reducing such indirect costs of education as transportation, textbooks, and uniforms (ILO-IPEC 2008). Scholarships targeting poor families can also be effective. Thailand pursues a more ambitious strategy by allocating a significant share of its stimulus package to providing free education to children up to the age of 15, plus health care in rural areas. Public-private partnerships that support the education of children in poor households have a role to play.¹⁸

The most effective programs are those that combine measures to lower educational costs with incentives for parents to keep children in school and undertake regular medical checks. Indonesia has implemented this kind of conditional cash transfer since 2007 and will strengthen the program as part of its crisis policy response. There is evidence from impact evaluations that conditional cost transfers bring real benefits to poor households in terms of both current and future income through increased investment in child schooling and health care (Ravallion 2008; Das, Do, and Ozler 2004).

The crisis provides opportunities in health-care reforms. The PRC recently introduced a 3 year, US\$125 billion plan to reform its health-care system. The plan aims to provide universal basic health care and extend coverage to the uninsured. It will boost investment in health infrastructure and enhance the monitoring of water and food safety and workplace safety. If well implemented, these measures will have a number of positive impacts beyond the health-care system. Public investment should spur growth and create jobs that can hasten crisis recovery. In the medium and long term, it will also help to reduce the need for high household savings and boost domestic consumption. Altogether, this will help to rebalance PRC economic growth toward domestic markets.

The current crisis presents an opportunity for some developing countries in the region to improve their poverty-reduction programs with the aim of gradually developing an effective social floor. Such a social floor could include improved access to jobs; basic health care; protection and education for children, the elderly, and people with disabilities; social assistance for the poor or unemployed; and other features that vary according need and stage of development.

17 A self-targeting scheme introduced under the Thai fiscal package uses subsidies for low-quality public transport, for which demand falls as income increases.

18 At the end of 2008, the government of the Philippines introduced the youth education–youth employability (YE-YE) project in partnership with the Jollibee fast food chain. The objective of the partnership is to provide opportunities for the children of informal sector workers and child laborers to pursue a post-secondary course through tuition fee advances while obtaining practical training in the workplace. The YE-YE project targets helping 100,000 children in 2 years (Department of Labor and Employment 2008). See: Department of Labour and Employment web site, *Weathering the Crisis through Well-placed Programs*, 24 December 2008, www.dole.gov.ph/news/details.asp?id=N000002269.

5.5 Credit-constrained Businesses and Industrial Adjustment

The employment effect of fiscal stimulus measures aimed at enterprises depends on the policy tools used and the characteristics of the targeted sectors. Japan and Korea have introduced wage-subsidy schemes for particular groups and sectors, while Singapore has established across-the-board subsidized employment to encourage businesses to preserve workplaces in the downturn.¹⁹ Other governments reduced unemployment insurance contributions and other payroll taxes.²⁰ All these measures can reduce the costs of employment for firms without reducing employment or workers' take-home pay, thereby providing incentives for work and maintaining consumption. They may be appropriate when the crisis is short lived or a particular industry and enterprises is able to recover quickly. But, in the longer run, they may not be fiscally sustainable, and their role in developing Asia is limited by the relatively small formal economy.

When considering support to specific industries, a critical aspect of the policy choice should be the employment intensity of a sector, as fiscal stimulus measures aimed at labor-intensive industries have larger employment effects. In addition, incentives that target sectors that are less import intensive are likely to lead to a larger relative increase in domestic demand and employment than similar incentives provided to more import-intensive sectors.

Support for small and medium-sized enterprises (SMEs) needs to be a key component of most stimulus packages in the region, partly because the crisis has hit SMEs disproportionately relative to larger companies and because small firms account for a large share of total employment in most economies. Access to credit is particularly critical for viable small firms. The main reason for government-backed credit guarantees is that, while cash injections to banks may help alleviate the overall credit crunch, lending to SMEs may not improve unless policies are directed specifically toward their needs. This has affected those small firms that primarily rely on bank credit to meet their operating costs, including numerous SMEs that work for supply chains and global production networks.

Government assistance to enterprises that face particularly difficult problems that could lead to closure or large employment reductions should also be considered. However, public subsidies to enterprises should be linked to restructuring plans that preserve employment and result from social dialogue between management and trade unions (ILO 2008e).

5.6 Short-Term Challenges and Long-Term Priorities

Developing countries that are able to tackle short-term challenges while remaining focused on long-term priorities will likely emerge stronger and take greater advantage of the recovery. Some of the measures that would help in both the short and long term include structural reforms to enhance productivity and labor quality and investment in green growth and green jobs.

Spending on research and development and investing in people can boost the longer-term productivity of the economy. With this aim, Malaysia and Thailand have allocated part of

¹⁹ The Singaporean government has allocated US\$3 billion to the Jobs Credit Scheme, under which employers will receive wage support for each employee on the enterprise's payroll. The subsidy covers 12% of the first US\$2,500 in wages. It will be given in four quarterly payments, with each payment based on the workers who are with the employer at the time. It is important to note that the scheme will help all companies, including small and medium-sized enterprises and companies that pay much lower income tax under the Singaporean tax schedule (Singapore government 2009). See: Singapore Government: Budget Speech 2009: Keeping Jobs, Building for the Future (January 2009).

²⁰ In Indonesia, the stimulus package includes a measure to compensate for employees' income taxes usually paid by businesses. Unlike in many other economies, most companies in Indonesia subsidize the income tax liabilities of their workers, thus taking on more tax burden (Suharmoko 2009). See: Aditya Suharmoko: "Government unveils final stimulus plan to boost economy", Jakarta Post, 28 January 2009.

their stimulus spending to training and education. As training costs less during an economic downturn, Singapore looks at the recession as a good opportunity to retrain workers. The Skills Programme for Upgrading and Resilience, a new tripartite umbrella program supported by the fiscal package, helps employers to retrain and develop their workforce rather than simply cut jobs and will boost national productivity and competitiveness over the medium and long term (Singapore Department of Statistics 2009).

Response measures to the current crisis can be opportunities for addressing economic and environmental priorities at the same time.²¹ This can be done by giving national economies the necessary stimulus against global shocks while prompting a transition toward more sustainable development. Measures to increase demand and restore growth should therefore take into consideration environmental concerns and the high potential for investments in environmentally friendly areas to generate future employment and sustainable growth. This is particularly true for developing economies, which can benefit from double dividends by promoting green growth and green jobs while targeting poverty reduction. The scope and potential for green jobs are vast (UNEP 2008).

Some governments are already taking steps toward a green recovery strategy. Korea's Green New Deal aims to improve the use of the nation's four major rivers, construct dams and other water-management facilities, develop green transportation networks and clean energy technologies, build 2 million green homes, and create more than a million green jobs. Malaysia has introduced a training program to prepare unemployed graduates for green jobs under the Sarawak Corridor for Renewable Energy, a major project that is expected to generate 1.6 million jobs by 2030 (Prime Minister's Office of Malaysia 2009).

Crisis recovery, however, also entails large environmental challenges. Large infrastructure projects for railroads, highways, and housing feature prominently in many fiscal packages. If not designed to be environmentally friendly, they can generate widespread environmental damage. It is critical to carry out rapid environmental impact assessments before the work begins. The PRC's package, for example, allocates RMB350 billion (or 9% of all stimulus resources) to environmental protection and preliminary environmental assessments.

While the potential economic and environmental benefits of these types of investments are great, substantial upfront expenditures and political will are required. Governments in the region must look to the long term if they want to turn the global economic challenge into an opportunity for sustainable growth and development.

5.7 Enabling a Sound Policy Environment

Measures are best implemented through social dialogue, which can help improve the design of the crisis response measures at the enterprise, industry, and national level, as well as provide political support for the fiscal packages and other government policies. However, much depends on national circumstances and the quality of industrial relations. In some economies, the global crisis has intensified existing tensions in labor–management relations, leading to strikes and disrupted production. On the other hand, in economies with more developed and coordinated industrial relations that feature broad-based representation, strong labor institutions, and long-term trust between partners, social dialogue has negotiated solutions that in some instances have become components of the broader national policy response to the crisis. Sharing experiences and building the capacity of social partners to engage in constructive dialogue to address the crisis must be a priority.

As the deep recession could add to pressures undermining workers' rights, it is essential to ensure that social progress is not reversed. Above all, the crisis should not be taken as an

²¹ This is aptly expressed by the Trade Unions' Washington Declaration, stating that "this is the time to aid economic recovery through environmentally responsible investment designed to create jobs" (ITUC, TUAC, and Global Unions 2008). See, ITUC, TUAC and Global Unions: Trade Union Statement to the 'G20 Crisis Summit': The Global Unions 'Washington Declaration' (November 2008).

excuse to erode such fundamental labor rights as freedom of association, collective bargaining, and freedom from all forms of forced and compulsory labor, as well as the abolition of child labor and discrimination in employment. Careful monitoring of the impacts of the crisis on labor standards will be essential to preserving social progress and maintaining social stability.

The employment impact of any stimulus package will depend significantly on how rapidly the local economy can respond to any increase in domestic demand. In this regard, policy coherence is essential. The impact of major public investment in infrastructure will depend on whether local construction materials are available and whether local suppliers and contractors, many of them small firms, have the resources and incentives necessary to participate. Similarly, social transfers to poor and low-income households will generate demand for food and other basic consumable goods, many of which are produced by farmers and local SMEs. By helping to ensure that SMEs can sustain their operations now and thereby benefit from the subsequent increase in consumer demand, policies should facilitate a rise in household incomes coordinated with supporting local economic development. Targeting small firm clusters can have particularly beneficial multiplier effects. It is crucial to strengthen administrative and institutional capacity as well as coordination among various agencies to ensure these programs are effective.

Despite wide-ranging policy actions by central banks and policy makers in Asia and around the world, fiscal strains are acute and confidence remains low, dragging down the real economy (IMF 2009). Their integration into the global economy means Asian economies are unlikely to recover fully without a broader recovery in the rest of the world. Further, while economies may bounce back quickly on the strength of their policies and solid underlying fundamentals, recovery in labor markets is likely to lag because of relatively weaker employment and social protection policies. Strong cooperation on economic, labor, and employment policies among Asian economies could help mitigate the impacts of the crisis and promote recovery. Solidarity is critical, as not every economy in the region or globally has the fiscal resources to implement bold measures to counteract the crisis. This is the time for strong and coordinated international policy actions to support recovery and to improve the prospects for decent work for all (ILO 2008c).

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APPENDIX: METHODOLOGIES FOR CONSTRUCTING SCENARIOS

1. Unemployment Scenarios

Scenario 1 projected unemployment using an econometric model based on the historical relationship between gross domestic product (GDP) growth and unemployment rates in individual economies between 1991 and 2008, together with the April 2009 International Monetary Fund (IMF) GDP growth projections.

Scenario 2 projected unemployment based on the historical relationship between economic growth and unemployment during the worst observed economic downturn in each economy by applying this relationship to the April 2009 IMF GDP growth projections.

Scenario 3 projected unemployment by taking the worst observed year-on-year increase in each country's unemployment rate and assumed that this same increase would happen simultaneously in all developed economies in 2009. Given the lagged impact of the crisis in developing economies, for these economies half of the largest observed increase was assumed to occur in 2009.

2. Vulnerable Employment Scenarios

Scenario 1 projected vulnerable employment by using the historical relationship between economic growth and vulnerable employment at the national level between 1991 and 2008, together with the April 2009 IMF GDP growth projections.

Scenario 2 projected vulnerable employment based on the historical relationship between economic growth and vulnerable employment during the worst observed economic downturn in each economy by applying this relationship to the April 2009 IMF GDP growth projections.

Scenario 3 projected vulnerable employment by taking the worst observed year-on-year increase in each economy's vulnerable employment rate and assumed that this same increase would happen simultaneously in all economies in 2009.

3. Working Poverty Scenarios

Scenario 1 projected working poverty by using the historical relationship between poverty rates and per-capita GDP figures (using regression analysis at the regional level to identify the average relationship between these variables over 1980–2006) and projected this forward on the basis of the April 2009 IMF GDP growth projections.

Scenario 2 projected working poverty based on the assumption that individuals living on the fringe of poverty (5% above the poverty line for 2008 and 10% above the poverty line for 2009) would fall into poverty.

Scenario 3 projected working poverty on the assumption that individuals living 10% above the poverty line for 2008 and 20% above the poverty line for 2009 would fall into poverty.

4. Labor Productivity Scenarios

The International Labour Organization unemployment scenarios were utilized to produce scenarios of labor productivity growth for 2009.

Table A.1: Subregional Country Groups

Developed Economies in Asia	East Asia	Southeast Asia and the Pacific	South Asia
<ul style="list-style-type: none"> ▪ Australia ▪ Japan ▪ New Zealand 	<ul style="list-style-type: none"> ▪ People's Republic of China ▪ Hong Kong, China ▪ Democratic People's Republic of Korea ▪ Republic of Korea ▪ Macau, China ▪ Mongolia ▪ Taipei, China 	<ul style="list-style-type: none"> ▪ Brunei Darussalam ▪ Cambodia ▪ Timor Leste ▪ Fiji ▪ Indonesia ▪ Lao People's Democratic Republic ▪ Malaysia ▪ Myanmar ▪ Papua New Guinea ▪ Philippines ▪ Singapore ▪ Solomon Islands ▪ Thailand ▪ Viet Nam 	<ul style="list-style-type: none"> ▪ Afghanistan ▪ Bangladesh ▪ Bhutan ▪ India ▪ Islamic Republic of Iran ▪ Maldives ▪ Nepal ▪ Pakistan ▪ Sri Lanka

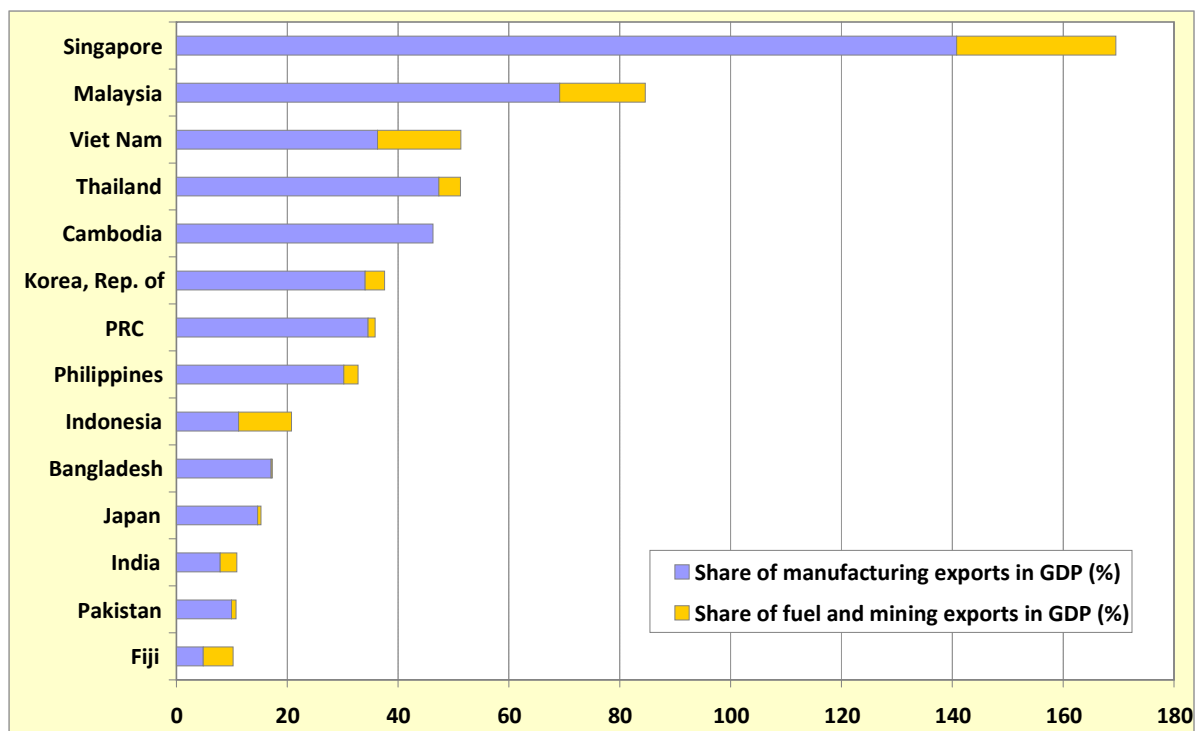
Source: Authors.

Table A.2: Unemployment Insurance Schemes, selected Economies in Asia

	Date	Program type	Share of wage and salaried workers in total employment (%)
PRC	1986, 1993, 1999	Local government administered social insurance	...
India	1948 (state insurance)	Social insurance	...
Indonesia	-	-	38.5
Japan	1947; 1974 (employment insurance), with amendments in 2003 and 2007	Social insurance	86.1
Republic of Korea	1993 (employment insurance), implemented in 1995 with amendments in 1997, 1999, 2002, 2003, 2005, and 2008.	Social insurance	68.2
Malaysia	-	-	74.2
Philippines	-	-	51.1
Thailand	1990 (social security), implemented in 2004	Social insurance	43.6
Singapore	-	-	84.7
Viet Nam	2006 (Social Insurance Law) and 2008 (Decree 127)	Social insurance	21.5

Sources: Ministry of Labor, Invalids, and Social Affairs 2007; ILO 2008; Republic of Korea Ministry of Labor 2008. Ministry of Labor, Invalids, and Social Affairs: *The result of current employment and unemployment in Viet Nam 2006* (Hanoi, Publishing House, 2007); ILO: *Labour and Social Trends in ASEAN 2008: Driving Competitiveness and Prosperity with Decent Work* (Bangkok, 2008); Republic of Korea Ministry of Labour: *Employment Insurance Law of Korea* (revised 31 December 2008).

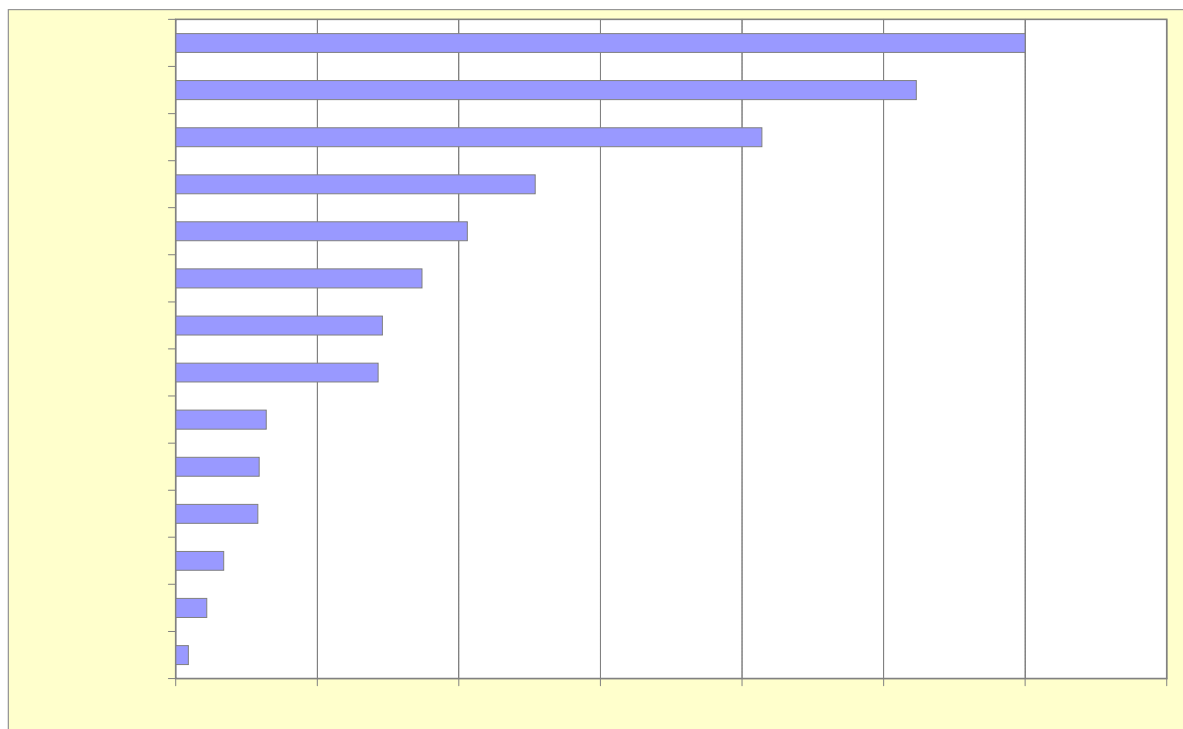
Figure A.1: Value of manufacturing and fuel and mining exports relative to GDP, 2007 (%)



GDP = gross domestic product, PRC = People's Republic of China.

Source: WTO 2008. World Trade Organization: Statistics Database, October 2008.

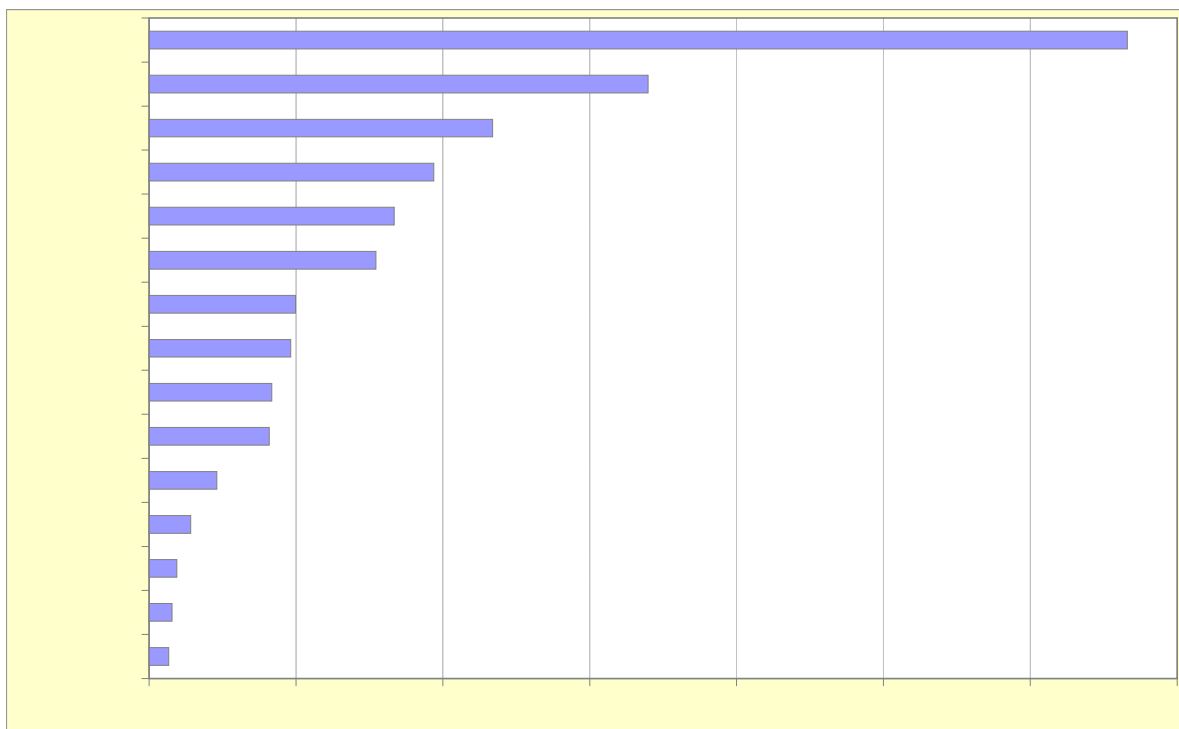
Figure A.2: Inward foreign direct investment share of gross fixed capital formation, 2007 (%)



FDI = foreign direct investment.

Source: UNCTAD 2008. UNCTAD: World Investment Report 2008.

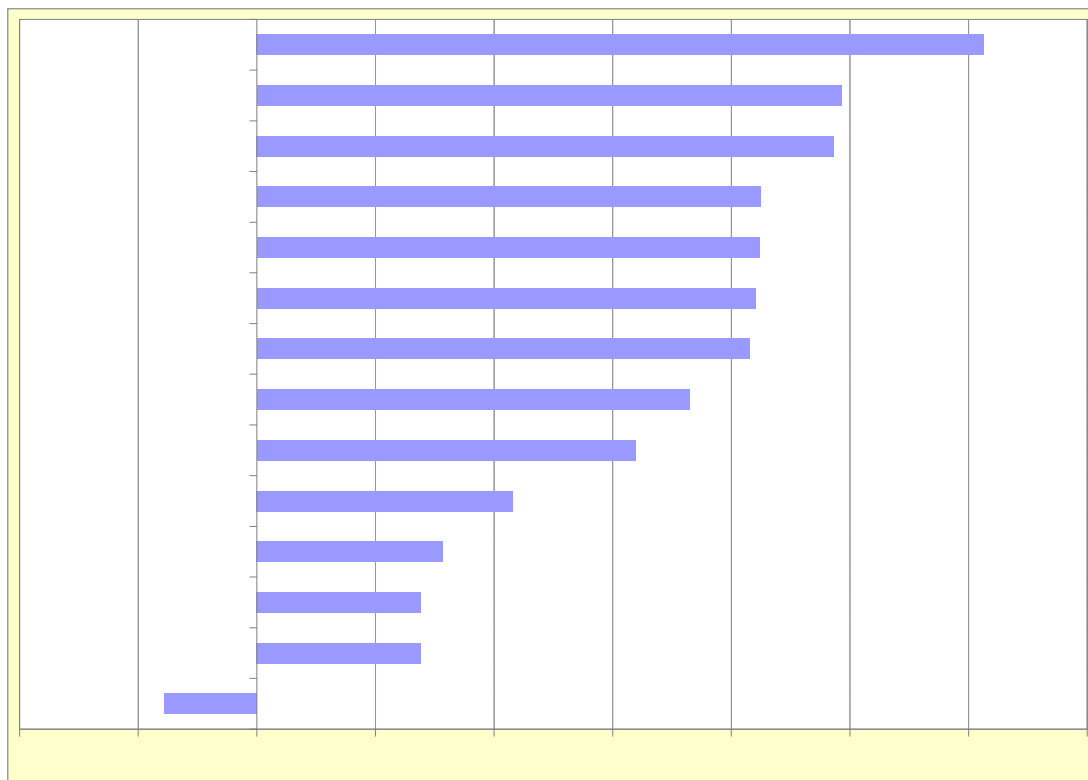
Figure A.3: Workers' Remittances and Compensation of Employees as a Share of GDP, 2007 (%)



PRC = People's Republic of China.

Source: World Bank: World Development Indicators, 2008.

Figure A.4: Projected Labor Force Growth, 2008–2010 (%)



PRC = People's Republic of China.

Source: ILO: Laborsta, Economically Active Population Estimates and Projections (Version 6).