



FOURTH ITEM ON THE AGENDA

**The ILO's response to the financial crisis in
East and South-East Asia****The Social Impact of the Asian Financial Crisis:
An ILO Governing Body Symposium
Geneva, 19-20 March 1999****Conclusions of the Reporter**

1. The social cost of the Asian financial crisis has been extremely high, with a substantial rise in open unemployment and underemployment and a significant decline in real earnings, concentrated mostly in sectors of the economy linked to international trade and financial flows.
2. The negative social impact has not been uniform across social groups. Workers and the emerging middle class in urban areas are the worst affected, since the rural economy was relatively insulated from the effects of the crisis. Among the victims of the crisis, vulnerable groups such as women, children, and migrant workers have suffered most.
3. The severity of the social impact was aggravated by the relative neglect of the development of institutions for social protection during the decades of the Asian economic miracle. Except in the Republic of Korea, there was no system of unemployment insurance, social assistance, or active labour market policies to relieve the distress of the large number of workers who lost their jobs or were pushed into poverty as a result of declining real incomes. Similarly, the relative underdevelopment of labour institutions ruled out any significant reliance on tripartite arrangements to moderate the extent of job losses.
4. While there are now encouraging signs that currency and financial markets have begun to stabilize and that the preconditions for recovery are in place, complacency must be avoided. Serious obstacles have still to be overcome in the task of financial and corporate restructuring. At the same time the

reform of social policy and the building of new social institutions is a complex and difficult process.

5. In spite of these continuing difficulties, there is a clear determination to persevere with ongoing reforms. The crisis has forged recognition that the deficiencies of the pre-crisis economic and social systems need to be remedied. A common new vision for reform is emerging that consists of the following key elements:

- (a) The importance of democracy as a guarantor of basic human rights, of transparent and hence sound economic and social policies, and of social justice. Within this framework, respect for the ILO standards enshrined in the Declaration on Fundamental Principles and Rights at Work is an important element. In particular, freedom of association and the right to collective bargaining are the foundation for building strong institutions for social dialogue.
- (b) The recognition that social dialogue is invaluable for sustaining democracy and open policy debate will act as a bulwark against the adoption of corrupt, inefficient and inequitable policies, which contributed to the onset of the crisis. Social dialogue also confers substantial economic and social benefits in terms of its contribution to non-conflictual economic restructuring and to the weathering of economic crises. In the current Asian crisis, countries that engaged in substantive social dialogue have been successful in moderating the extent of retrenchments, reducing social and industrial unrest, negotiating wage restraint in support of economic recovery, and achieving a more equitable sharing of the social costs of the crisis.
- (c) The highest priority should be given to the strengthening of systems of social protection. Possible measures include the introduction of unemployment insurance and the expansion of social assistance schemes to relieve extreme poverty.

6. In considering the lessons of the crisis the following key points emerged:

- (a) The proper response to the crisis was not to turn against globalization but to try to make the process work better. Efforts should be made to correct defects in the current international financial system in order to reduce the vulnerability of countries to financial crises and improve the regulation of financial flows, including short-term financial flows, as well as national efforts to strengthen financial systems.
- (b) In responding to crises, the international financial institutions (IFIs) should take into account the particularities of different national situations and avoid a "one size fits all" approach. The trend towards greater transparency on the part of the IFIs with respect to their analyses and systemic and country risk assessment should be reinforced. In addition, every effort should be made for meaningful dialogue with the social partners in the design and implementation of stabilization and structural adjustment programmes. The social partners should be given adequate advance notice and full access to the relevant information in order to be fully prepared to engage in serious discussion of issues.

(c) Greater integration of economic and social policies should be striven for. The social implications of economic policies should be taken into account at the initial stage of policy formulation, and there should be clear recognition that economic policies that impose a heavy social cost are not viable. Every effort should also be made to minimize the trade-off between economic and social objectives.

(d) The availability and quality of research and data in order to allow for better policy design and more effective monitoring and evaluation of policy implementation should be improved. This is particularly important for social policy, where interventions are most effective when they are tailored to the special needs of different social groups.

(e) Immediate short-term preoccupations during a crisis should not detract attention from the fundamental importance of promoting the growth of productive enterprises and employment generation. The removal of regulatory and other obstacles to enterprise growth, especially that of small and medium enterprises, should be a priority. Reforms to improve the functioning of labour markets that are achieved through tripartite agreement also have an important role to play in this connection.

7. The ILO and other agencies with a social mandate on the one hand, and the IFIs on the other, should work more closely together in order to be better prepared to deal with future crises. In particular, closer collaboration between the ILO and the IFIs could be achieved through measures such as giving the ILO representation in the IMF Interim Committee and the World Bank/IMF Development Committee as well as the working out of agreed priorities for joint action, including -- but not limited to -- active cooperation at both the policy-making and operational level to promote implementation of the ILO Declaration on Fundamental Principles and Rights at Work by the IFIs, and the assignment of high priority to the design and implementation of efficient social insurance systems by the ILO.

8. In reviewing ILO action in response to the crisis, the symposium highlighted the following issues:

(a) The ILO needs to strengthen its capacity to respond rapidly to major crises. This involves greater flexibility in reallocating internal resources as well as an augmented capacity to mobilize external resources to put in place emergency programmes to deal with the most dire social problems during crisis situations.

(b) There should be a strengthened capacity to anticipate the onset of crises in order to allow for preventive action and a greater degree of preparedness to mitigate the social costs of crises. This will involve improved information systems for the monitoring and analysis of economic and social developments.

(c) ILO action should be based on the clear recognition that policy reform and building new institutions is complicated both in terms of design and implementation. It requires sustained effort that is backed up by high-quality technical studies and policy advice.

9. The ILO should act as a catalyst and facilitator to put in place well-designed programmes of training, retraining and job placement, and for the promotion of self-employment targeted at the specific needs of retrenched workers.

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