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Deepening crisis in developing Asia: A Decent Work response

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Outline of presentation

- 1. Transmission, impact and outlook**
- 2. Employment and social effects**
- 3. Recent policy responses**
- 4. Decent Work response for recovery and sustainable development**

1. Key transmission mechanisms

■ Trade channel

- The region's exports relative to GDP are among the highest globally
- Manufacturing export share in GDP: Singapore (140%), Malaysia (69%), Thailand & Cambodia (~46%)

■ Capital inflow and FDI

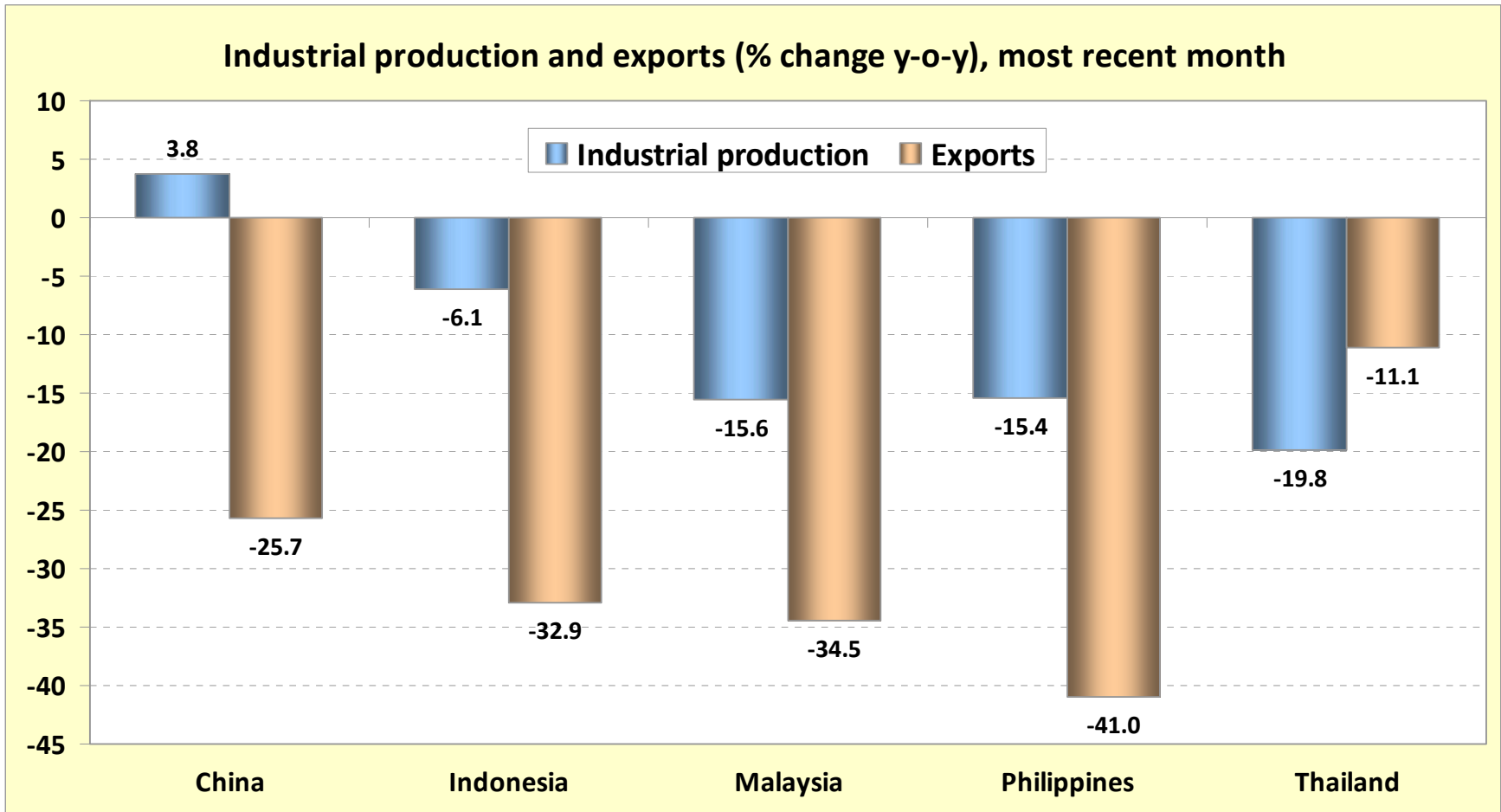
- Singapore, Cambodia and Fiji are major FDI recipients
- FDI to developing countries projected to shrink by more than 30% in 2009

■ Remittances at risk

- Remittance share of GDP: Nepal (17%), Philippines (12%), Bangladesh (10%), Sri Lanka (8%)
- World Bank forecasts a decrease in remittances of 5-8% in 2009

■ Marked fall in confidence: Asian investors and consumers have cut back spending

Industrial production and exports hit badly



Source: World Bank: *East Asia and Pacific Update* (April 2009).

Economic situation deteriorating rapidly



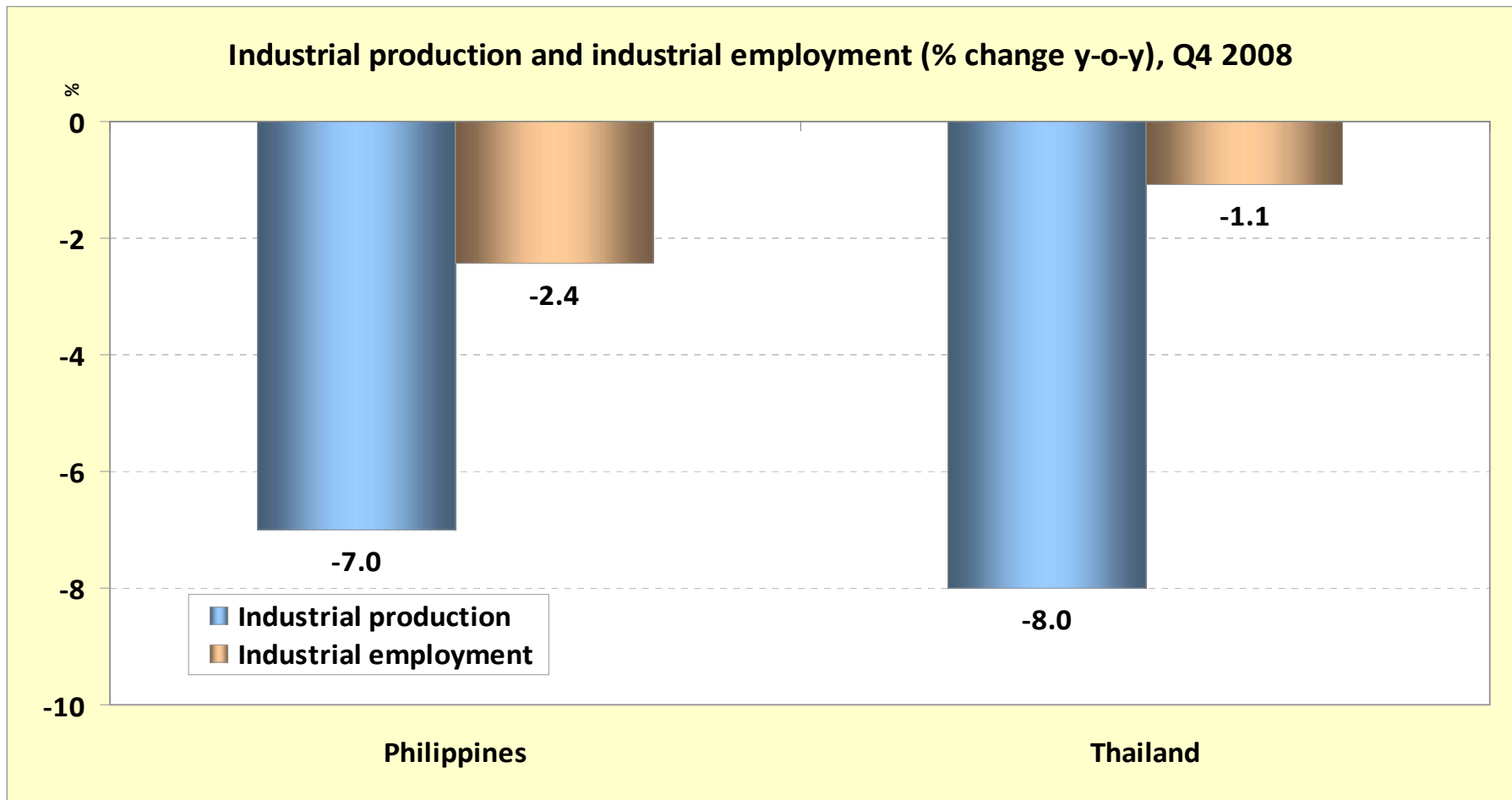
Source: UN Department of Economic and Social Affairs (April 2009).

2. Labour market impacts

As economic growth in Asia decelerates...

- **Demand for labour in formal economy has fallen**
 - First, recruitment freeze, cuts in working time and downward pressure on wages
 - Followed by recent large-scale job losses in some sectors
- **Unemployment is rising, but rates have remained low**
- **Informal economy has expanded**
- **Reverse migration has taken place**
- **Massive employment shifts still to come**

Delayed adjustment in the labour market



Source: World Bank: *East Asia and Pacific Update* (April 2009); national statistical office data.

Groups most vulnerable

■ Youth

- Already at least 3 times as likely as adults to be unemployed
- Philippines: unemployed youth increased by 5.9% y-o-y in Jan 2009
- Japan: unemployment youth increased by 19.5% y-o-y in Feb 2009

■ Women

- Over-represented among casual and contract workers and in many export-oriented industries

■ Migrant workers

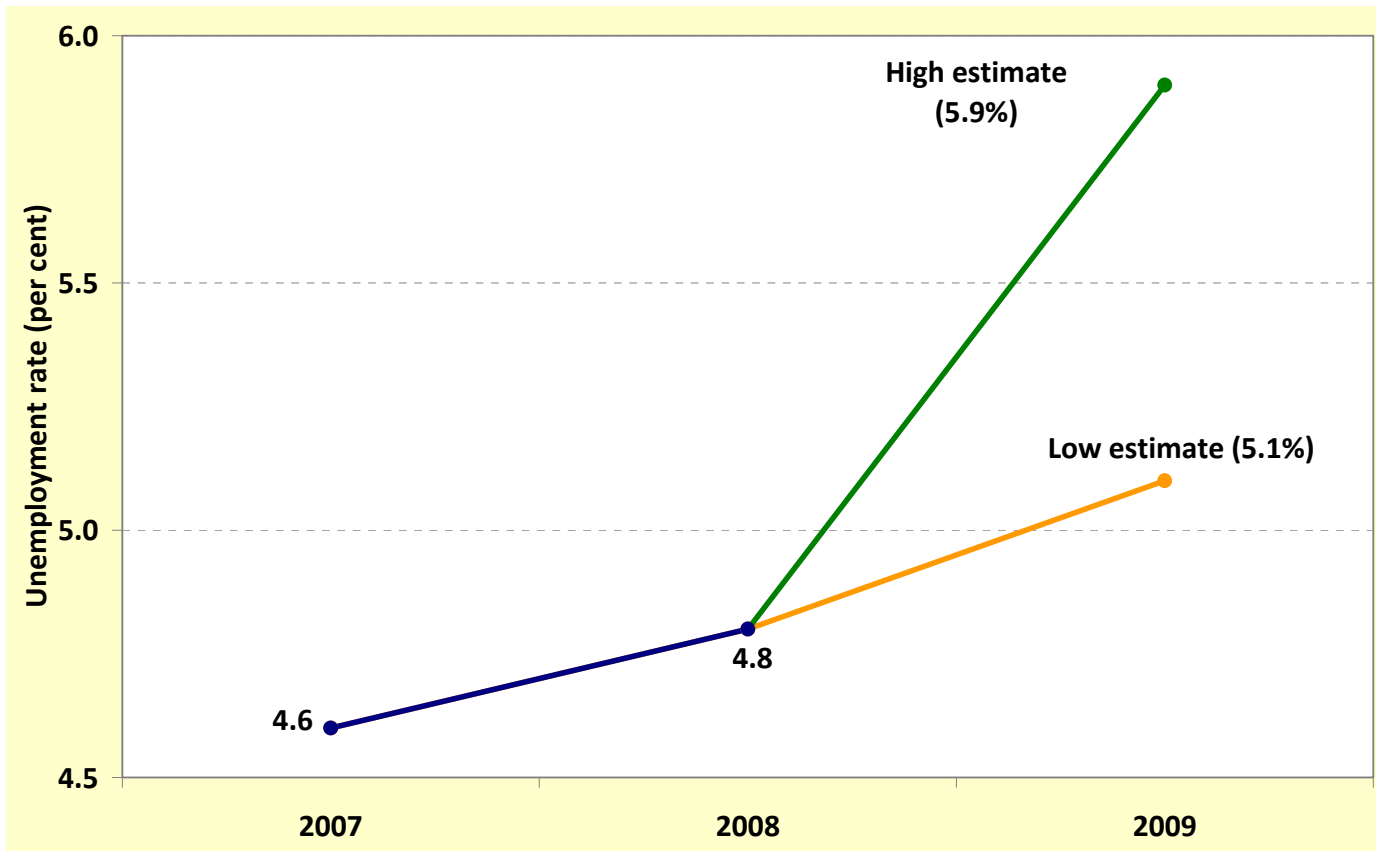
- Often among the first to be retrenched (especially newly arrived migrants)

Growing labour force exacerbates challenges



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

Unemployment increasing



2007: 84.8 million

2008: 89.8 million

2009:

- Low estimate: 7.2 million additional unemployed
- High estimate: 23.3 million additional unemployed

Source: ILO: Trends Econometric Models (December 2008).



Progress in poverty reduction is slowing

- **Informal employment is expanding**
 - Lower income, weak job security, inadequate social protection and poor workplace safety and health
 - 2008: 1.08 billion workers in informal employment
 - 2009: Increase of 21-61 million
- **Concerns of rise in working poverty**
 - 2007: 408 million extreme working poor
 - 52 million workers only 10% above extreme poverty line
 - 140 million workers only 20% above extreme poverty line
- **Absolute increase in poverty in 2009**
 - ADB: US\$1.25 per day poverty could rise by 62.3 million in Asia

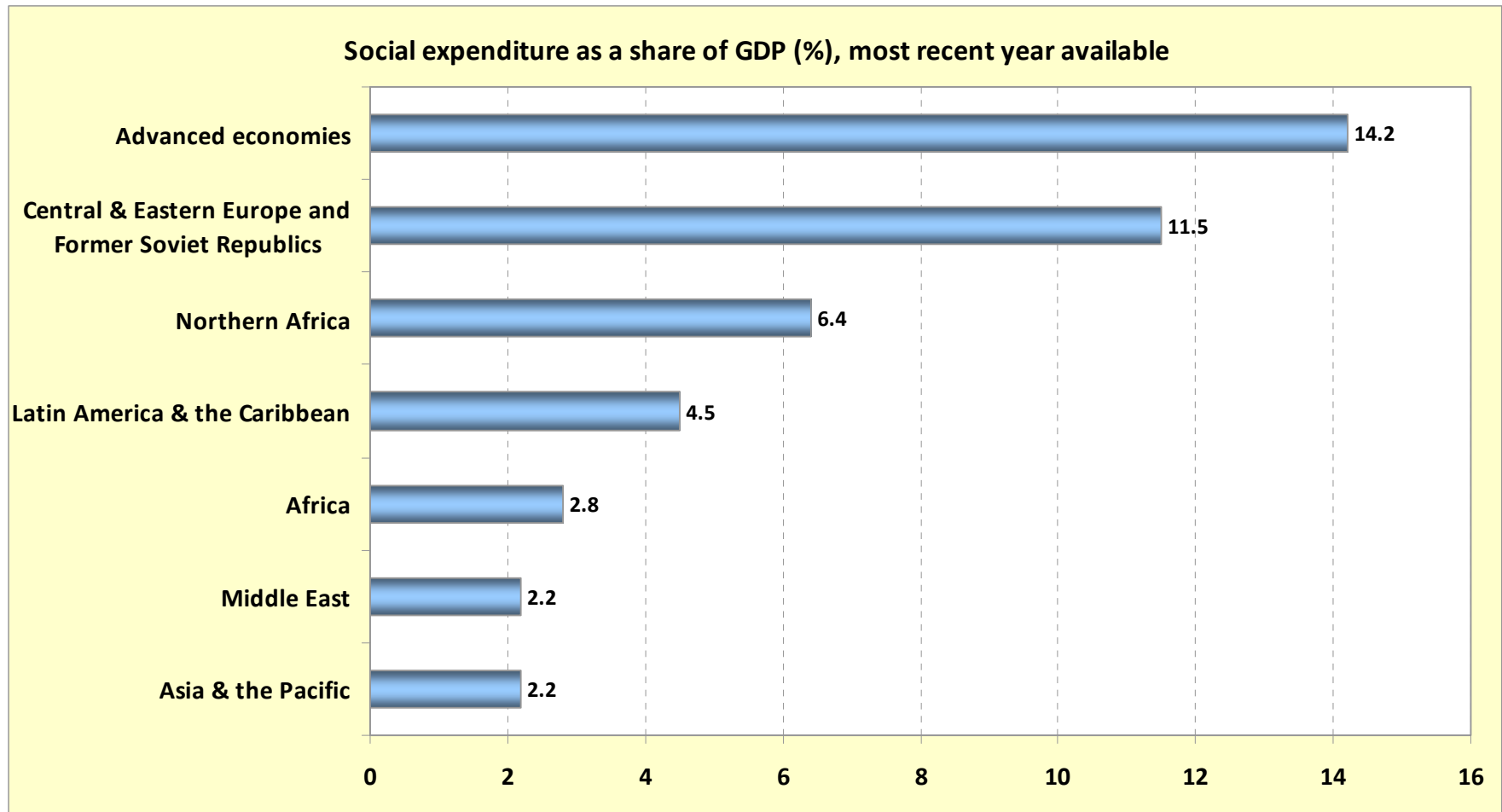


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Risk in prolonged LM recession & social crisis

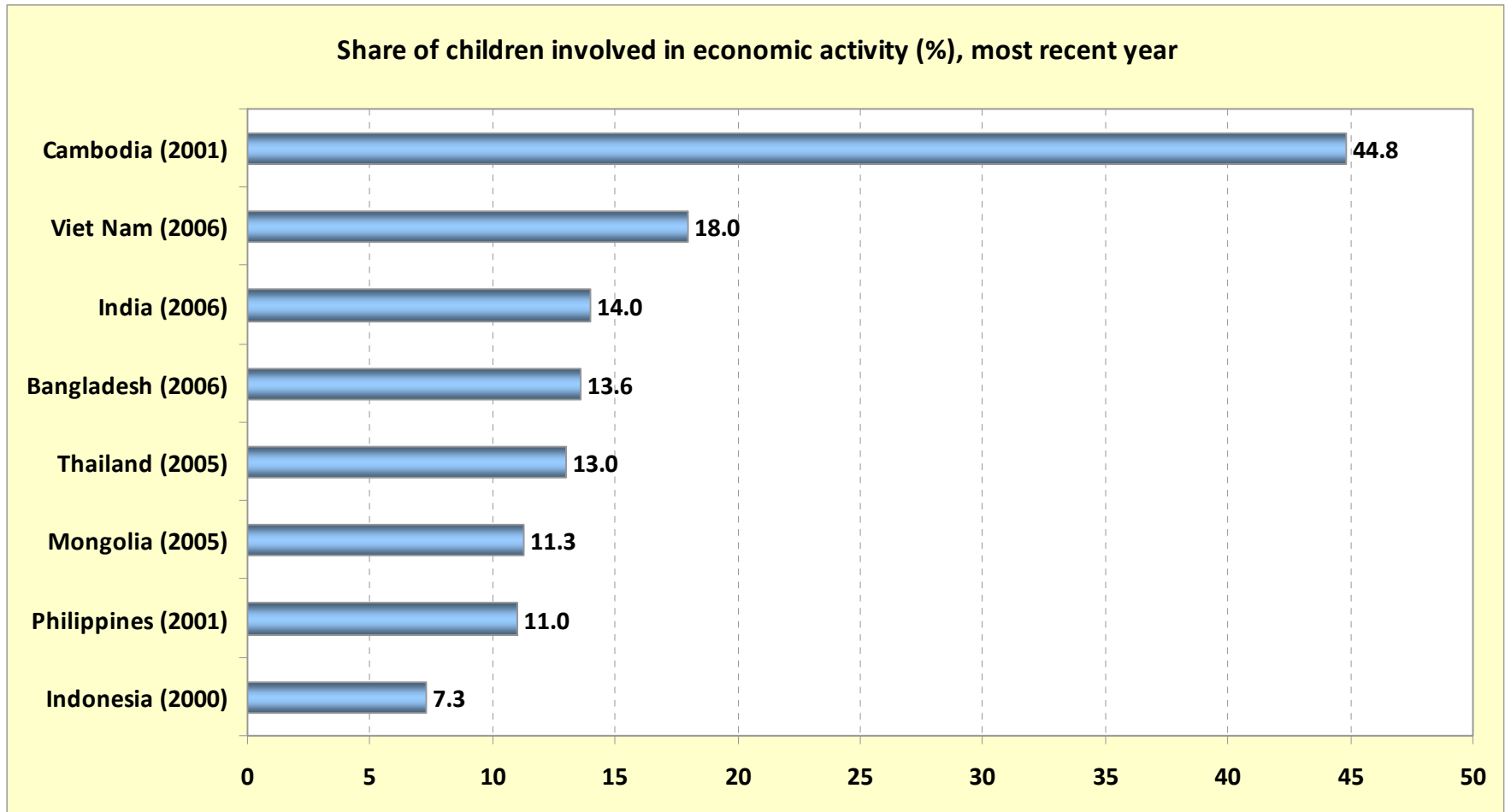
- **With a deep and long crisis, developing Asia might fall into recession**
- **Employment recovery will take even longer than restoring growth**
- **Risk of prolonged social crisis**
 - Long-lasting shift to informality and working poverty
 - Significant social hardships (depending on existing social protection coverage)

Low social protection coverage in Asia



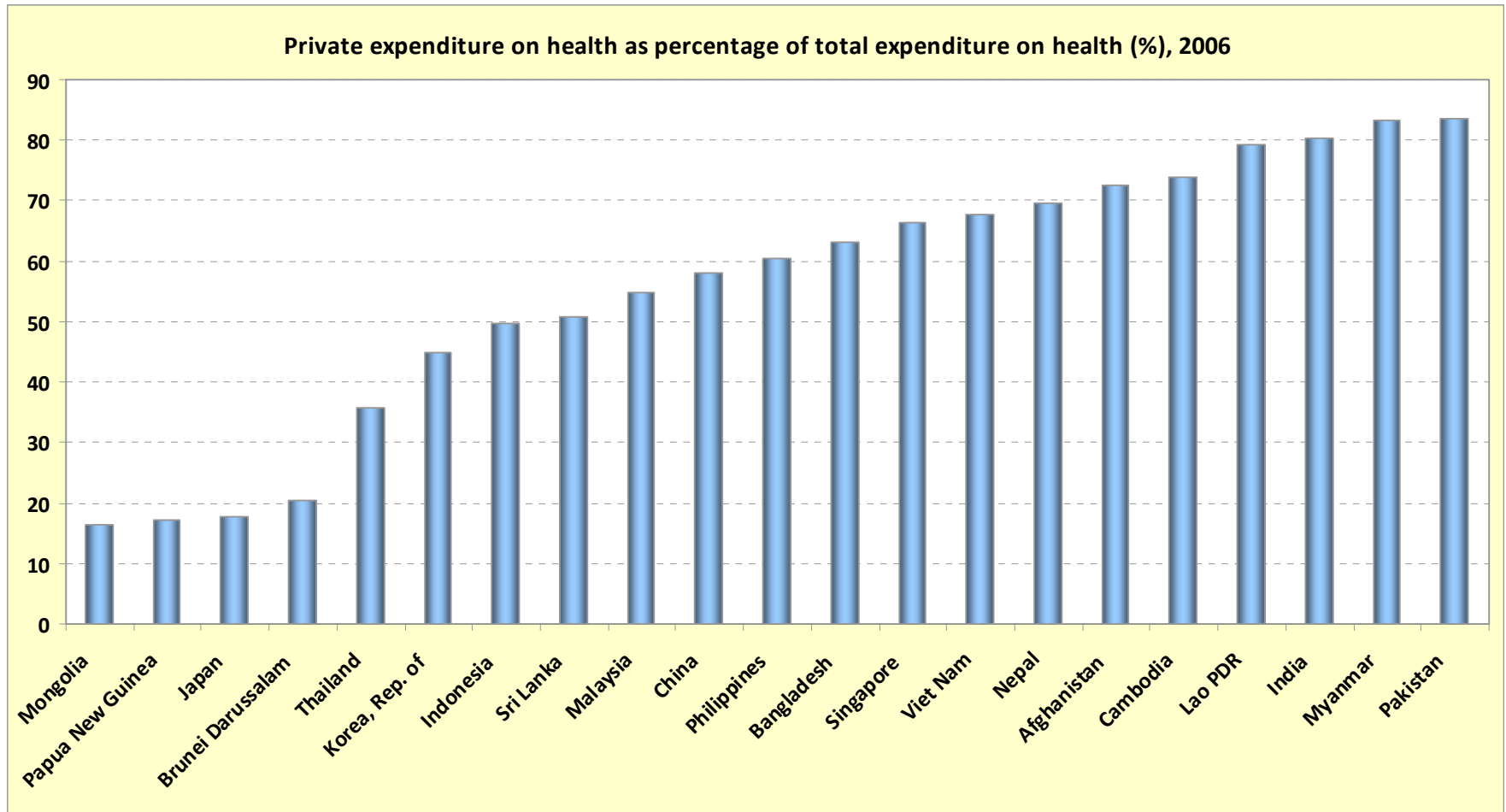
Source: ILO: *The Financial and Economic Crisis: A Decent Work Response* (2009).

Falling income could cause rise in child labour



Source: Understanding Children's Work (UCW), www.ucw-project.org.

... and cuts in private health expenditures



Source: World Health Organization Statistical Information System.

3. National policy responses

- **Three sets of policies**
 - Restoring liquidity and repairing financial system (in countries closely integrated with global financial systems)
 - Easing monetary policy: rates continue downward march
 - Fiscal measures to boost demand and restore confidence
- **Fiscal policy takes centre stage**
 - Supported by the IMF, which suggested a fiscal stimulus of 2 per cent of world GDP
 - Strong economic fundamentals in developing Asia, but not every country has 'fiscal space' (Cambodia, Pakistan)

... but uncertainties about the size and timing

- **Variances in size of fiscal stimulus packages**
 - From less than 1% to more than 7% of GDP
- **But many uncertainties**
 - New spending versus old spending
 - Source of spending (public versus private)
 - Time horizon of spending (one year versus longer period)
 - Tendency to include financial measures (e.g. loan guarantees)
 - In some cases, stimulus spending embedded in government budget – difficult to identify its size and allocation

Compositions vary significantly

- **Emphasis on public infrastructure spending: high multiplier effect on employment and increased long-term growth**
 - Challenge of implementing programmes that create jobs that match skills of the unemployed

- **Tax cuts to stimulate consumer spending and business activity are the second largest component**
 - Tax cuts run the risk of increasing savings rather than stimulating demand

- **Social transfers boost domestic spending and protect the poor**
 - But spending for social transfer and support for employment tend to account for a small share of the packages



Swift action taken but challenges abound

- **Support for employment and social protection is insufficient**
- **Few have explicit goals of job creation and welfare gains**
- **Weak administrative and institutional capacity**
- **Some efforts to engage social partners but more needed**
- **If current packages fail, many countries lack resources for subsequent measures**
- **Need for transparency, impact evaluation and refocus**

4. Decent work for recovery and sustainable development



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- **Promote job-rich public spending programmes with supply response and skills**
 - Infrastructure, education, health and rural development
 - Could contribute to 'rebalancing' of economies
- **Support credit-constrained businesses (including SMEs)**
 - Help take advantage of new opportunities from public spending and social transfer programmes
 - Credit guarantees, credit lines, preferential credit; and reduction in taxes
- **Enhance social protection, especially for the poor and vulnerable**
 - China, Indonesia, Thailand, Philippines: stimulus packages all contain substantial anti-poverty components
 - India: National Rural Employment Guarantee, social security scheme for informal economy workers and National Health Insurance

Decent work for recovery and sustainable development (cont.)



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- **Support poor families to keep their children in education**
 - Indonesia: Conditional cash transfer programme based on health check-ups and minimum school attendance for children
- **Increase the scope and responsiveness of unemployment benefit system**
 - Japan has eased eligibility criteria, Viet Nam just introduced UI, and Malaysia considers feasibility of UI
- **Crisis may provide an opportunity to progress in health care reform**
- **All these measures should form the basis for social protection for all**

Decent work for recovery and sustainable development (cont.)



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- **Tackle short-term challenges but keep focus on long-term priorities**
 - Structural reforms to enhance productivity and labour quality (Singapore, Malaysia and Thailand: skills upgrading programmes)
 - Invest in “green recovery” and IT (Malaysia, Japan, and Republic of Korea)
- **Enabling a sound policy environment**
 - Involve social partners in policy design
 - Ensure fundamental principles and rights at work are observed
 - Improve policy coordination and administrative capacity to implement measures
 - Strengthen regional and international cooperation (G-20)



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Thank you

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