ASIAN DECENT WORK DECADE 2006 2015

International Labour Organization
Organisation internationale du Travail
Organización Internacional del Trabajo

## Responding to the Economic Crisis – Coherent Policies for Growth, Employment and Decent Work in Asia and Pacific

**Manila, Philippines, 18-20 February 2009**

# The fallout in Asia: Assessing labour market impacts and national policy responses to the global financial crisis

**ILO Regional Office for Asia and the Pacific, Bangkok**

## Preface

This paper has been prepared for the High-level Regional Forum on Responding to the Economic Crisis in Asia and the Pacific, scheduled to take place in Manila, Philippines from 18 to 20 February 2009. The Forum has been convened by the ILO, with support from the Government of Norway and in collaboration with the Asian Development Bank (ADB) and the Department of Labor and Employment of the Philippines. It is part of a series of similar gatherings the ILO is organizing throughout several regions of the world. The aim of the Forum is to share experiences in responses to the crisis with a view of strengthening policy coherence both at the national and international levels.

Participants[1] of the Forum include leaders of governments, workers' and employers' organizations, along with scholars and experts form international and regional organizations. The participation of the ADB and the representatives of finance ministries are critically important to build the political will, social dialogue and technical support that can contribute to innovative policies and programmes needed to stimulate demand, support businesses and protect the vulnerable and those most exposed to the crisis. This, in turn, can set the foundation for a more equitable and sustainable global recovery.

The High-level Forum will draw on the outcomes of the ILO Governing Body's Working Party on the Social Dimension of Globalization which met in November 2008 and called for comprehensive and coordinated measures to minimize the duration and depth of the current economic downturn and to combat the related negative social consequences. The ILO's 2008 *Declaration on Social Justice for a Fair Globalization* is equally relevant. The ILO has a particularly important role in ensuring that policy packages fully take into account the need to create a strong foundation for productive enterprises and decent work and to promote a fair and inclusive globalization.

The purpose of the paper is to provide a starting point for the participants of the Forum to engage in constructive dialogue aimed at promoting coherent policy packages, underpinned by the ILO's Decent Work Agenda, in response to the current economic crisis. The paper was produced by a team led by Gyorgy Sziraczki, and that included Steven Kapsos, Phu Huynh, Valentina Barcucci and Kazutoshi Chatani. Sukti Dasgupta, Tim de Meyer, Chang Hee Lee and Sandra Rothboeck contributed with helpful background notes. Special mention should be given to Somsward Punkrasin, David Williams, Ju Hyang Lee and Marc Ruffet for research assistance. Useful comments and suggestions from colleagues in the ILO Regional, Subregional and country offices of Asia and the Pacific, the Policy Integration and Statistics Department, the Bureau for Workers' Activities and from Workers and Employers Specialists are duly acknowledged.

I hope that this paper will provide helpful background information and analysis for the discussion on coherent policies at the Manila Forum.

Sachiko Yamamoto
Regional Director
Asia and the Pacific Region

[1] The invited countries include Australia, Bangladesh, Cambodia, China, Fiji, India, Indonesia, Japan, the Republic of Korea, Malaysia, Pakistan, the Philippines, Thailand, and Viet Nam.

# Table of contents

## Executive summary

The global economic and financial crisis did not begin in the Asia and the Pacific region, and although the region has been the global economy's star performer in recent years, many Asian economies now find themselves fully engulfed in the downturn. Sharply slowing growth is not just reflected in the falling Asian stock markets and tumbling currencies that were witnessed in 2008, cracks in the region's labour markets have appeared, with factory closures, job destruction, and growing pressures for further reductions in employment, hours of work and wages. Job insecurity in the region is clearly on the rise.

### *The economic impact of the global crisis in Asia and the Pacific*

Economic growth in most Asian economies slowed sharply in the closing months of 2008, with current forecasts that growth will drop to the lowest level since the Asian financial crisis in 1998. As consumer spending in developed economies abruptly deteriorated in 2008, demand for many of Asia's exports has fallen sharply since September, and substantial further declines are expected in the first quarter of 2009. Accordingly, many Asian firms are slashing production and there has been an unmistakable rise in factory closures.

There is also clear evidence that the outlook for domestic consumption and investment has worsened in many Asian economies, posing a threat to overall growth prospects and a challenge to continue successful poverty reduction efforts. An expected decline in foreign direct investment in 2009 is likely to exacerbate the problem.

As migrant workers' incomes are at risk in the current economic downturn, so too are remittances, which represent a vital source of income and foreign exchange for many Asian economies. Remittance flows to developing economies began to slow in the third quarter of 2008, with an overall decline in remittances to these economies expected in 2009.

In the early part of 2008, the major concern in many Asian economies was not that economic output might slow, but rather that high food and commodity inflation would erode social progress. While inflation is now clearly decelerating, the price of many food items remains higher than in recent years, which threatens to exacerbate the impact of the current crisis on the poor.

### *Labour market and social consequences of the crisis*

From the onset of the crisis, workers in globally integrated financial services industries in the region faced job losses. Much of developing Asia was impacted later, and while the scope and targets of the impacts vary across countries, the export manufacturing and construction industries have been hit hard, and small firms across the region have been particularly vulnerable. New recruitment in many economies has stalled and the ongoing moderation in foreign and domestic investment has impeded the rate of new enterprise creation and job growth.

Subcontract, casual, temporary and overseas migrant workers are among the most vulnerable to job cuts, and job losses can be especially harmful to these groups, as many non-regular workers do not qualify for the severance pay or benefits to which their regular counterparts are entitled.

With increasing retrenchments in formal urban wage employment and inadequate social protection, an expansion of the informal economy is taking place, with the accompanying risk of a rising share of workers in precarious and hazardous employment. Job losses have also affected rural-to-urban migrants, many of whom face returning to lower productivity agricultural work.

A scenario based on economic growth projections together with labour market impacts from prior economic downturns indicates that the number of unemployed in Asia is likely to increase by approximately 7.2 million between 2008 and 2009 to a rate of 5.1 per cent, with women and youth disproportionately impacted. According to this scenario, the number of workers in vulnerable employment in Asia could rise by nearly 21 million and the number of extreme working poor could climb by over 52 million in 2009 alone.

According to the most pessimistic scenario, the number of unemployed in the region could surge by 23.3 million, to a rate of 5.9 per cent, while vulnerable employment could grow by an alarming 60 million. A dramatic increase in working poverty of more than 140 million by 2009 is projected under this scenario, representing a regression of the Asia and the Pacific region to the working poverty rate of 2004. These projections are not just numbers – they carry with them a real risk that children may be forced to withdraw from school in order to work and support their families.

The tremendous growth performance in Asia and the Pacific in recent years was not matched by equivalent broad-based gains in real wages. In addition, there have been sharp increases in inequalities in many Asian economies during the high growth years. The substantial growth slowdown taking place is likely to lead to stagnant or falling real wages, with the potential for increased incidences of wage-related disputes. Protecting workers' purchasing power is essential, with carefully designed minimum wages, effective collective bargaining systems and well-designed social transfer programmes – all necessary in this respect. Social dialogue can and must provide a constructive approach for workers and employers to prevent conflict from the outset and to ensure not only respect for fundamental labour rights but also enterprise sustainability.

### *National policy responses to the crisis*

In addition to emergency financial measures and proactive monetary policy, many governments in the region have also announced large fiscal stimulus packages in response to the crisis, with public spending on goods and services, assistance aimed at firms, and fiscal incentives targeted at consumers among the most typical policy levers utilized in the packages. Developing Asia as a whole is likely to spend about 3.9 per cent of its total GDP on fiscal stimulus in 2009. This is above the 2 per cent proposed by the IMF on a global scale; however when China is removed from this figure, the regional percentage falls to 1.4 per cent.

Promoting employment and supporting household purchasing power is critical for any stimulus package, as these will drive domestic consumption which is needed to immediately bolster growth. The impact of any stimulus package on employment and welfare will depend on a variety of factors, including (a) the speed at which the stimulus package is implemented; (b) its composition and the choice of the policy tools to deliver the stimulus; and (c) the spread of new jobs across sectors, groups of workers and gender.

Stimulus geared toward infrastructure projects provides a direct way to generate employment, while also laying the future foundation of growth. Additional beneficial multiplier effects can be generated through infrastructure if resources are allocated to rural areas which would also promote rural poverty alleviation. Ensuring that the composition of the jobs created is spread across different categories of workers, including women workers will also help to guarantee that the stimulus packages carry the maximum social benefit.

Stimulus aimed at businesses varies greatly, with some countries adopting economy-wide measures while others place more emphasis on incentives for specific industries. Reduction in unemployment insurance contributions and other payroll taxes and the provision of wage subsidies might be appropriate in the short run. In recognition of their great importance in Asian economies, support for small- and medium-sized enterprises has been an important component of most stimulus packages in the region.

Social transfers are an effective and very necessary policy response, serving to trigger domestic spending while also protecting the poor and the vulnerable. Such programmes vary in their design, ranging from food provisions to cash transfers. The effectiveness of these measures depends on how well they target disadvantaged households as well as on the speed of their implementation.

Investments in schools and hospitals and in free education and affordable health care provide other avenues for making real social progress. Prioritizing research and development and investing in workers' skills will help to boost the longer-term productivity of the region's workforce, giving firms and economies a better chance to move up the value chain when the global economic recovery begins to take shape.

While the crisis represents a tremendous challenge to the region, the response measures to the crisis represent a unique opportunity to address economic, social and environmental priorities at the same time.

Fiscal stimulus provide an opportunity to make a real progression toward a 'rebalancing' of economic growth that is sorely needed in many Asian economies – away from a heavy reliance on exports to a development path based more on domestic demand. It also presents a chance for developing countries in the region to improve their existing poverty reduction programmes, through the progressive development of an effective social floor.

Finally, it affords countries in the region with an opportunity to invest in a more environmentally sustainable recovery that can facilitate job creation and long-term competitiveness – a strategy being taken up in the stimulus packages of several Asian economies. Up-front investments in environmentally-friendly areas can provide an immediate boost to jobs, along with long-term cost savings for firms and economies together with the associated benefits to productivity and economic growth.

# Introduction

The paper provides a preliminary assessment of the economic and labour market impacts of the unfolding financial and economic crisis in Asia and the Pacific and reviews national policy responses to the crisis. Its aim is to present an overview of the main mechanisms through which the crisis is impacting the region, and to highlight some policy options available to countries confronting the crisis that are likely to have positive outcomes vis-à-vis employment generation, improving social welfare on the basis of decent work principles, and promoting a sound economic recovery.

The paper includes an executive summary and is organized into four sections. Section 1 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, and a related comparison with the Asian financial crisis of 1997/98. The main transmission mechanisms considered in the section include exports, domestic demand, foreign investment and remittances.

Section 2 assesses the employment and social consequences of the crisis and includes projections of the impact on unemployment, vulnerable employment and working poverty. It evaluates the sectors and groups most vulnerable to the crisis, including small- and medium-sized enterprises, contract/temporary workers, migrant workers, women and youth, and the poor. It also examines the impact of the crisis on wages and discusses the role of social dialogue and core labour standards in mitigating the impact of the crisis on workers and enterprises.

Section 3 provides an overview of the size and scope of fiscal stimulus measures in selected countries in developing Asia. It analyses the 'fiscal space' that countries in the region have to implement such stimulus programmes, given their levels of international reserves and internal and external balances. It also reviews various policy options available for such programmes, in the areas of public investment/infrastructure expenditures, social transfers to the poor and the vulnerable, and support to enterprises and environmental sustainability.

The paper concludes with a brief review of some critical issues on how to maximize the positive economic, employment and social outcomes of the fiscal stimulus measures in developing Asia.

It is important to note that the paper does not intend to analyse every potential impact on workers and enterprises – a task made difficult by limited information and data and a rapidly changing situation. Rather, its aim is to stimulate discussion and highlight key areas for further research and consideration by policy-makers and social partners. Furthermore, the paper does not provide systematic analysis of all countries in the Asia and the Pacific region. Rather, as the aim is to evaluate policy options for addressing the crisis, it focuses mainly on economies that have announced fiscal stimulus measures.

The paper is complemented by three technical notes providing more detailed information on the impact of the crisis on migrants and remittances, on women workers and on child labour and youth employment. Both the paper and the technical notes have benefited from ILO rapid assessment studies carried out in Bangladesh, Cambodia, India, Indonesia, Nepal, Pakistan, the Philippines and Sri Lanka, and from ILO policy response reviews conducted in Bangladesh, China, India, Indonesia, Malaysia, Pakistan, Singapore, Thailand and Viet Nam.

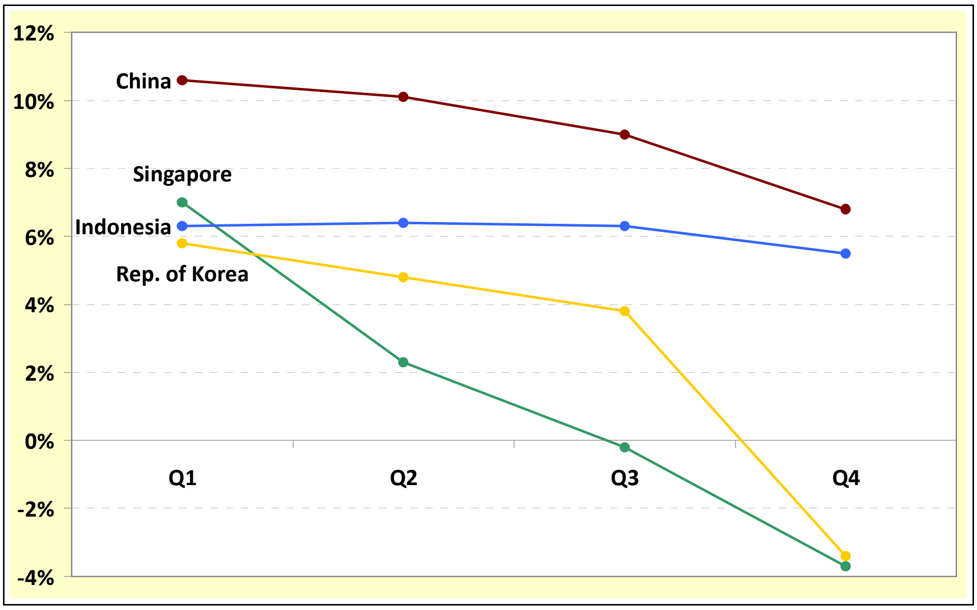
# 1. The economic impact of the global crisis in Asia and the Pacific

## *A rapidly deteriorating economic picture*

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 the Pacific region declined to 5.0 per cent in 2008, down from 7.0 per cent the prior year.[2] Asia's developing economies fared far better than the region's industrialized economies. In developing Asia, growth declined to a still robust 7.8 per cent in 2008 down from very rapid growth of 10.6 per cent in 2007, while in the region's newly industrialized economies, growth slowed to 2.1 per cent – less than half the rate of 5.6 per cent achieved the previous year.[3] And growth in Japan plunged to negative 0.3 per cent in 2008, down from 2.4 per cent in 2007.

Annual figures, however, fail to reveal the sudden emergence of the crisis. Most developing economies in Asia and the Pacific initially saw only a moderate deceleration in growth, but as the crisis intensified and demand began to sharply slow in the United States, the European Union and Japan, a substantial decline in economic activity took shape in many of these economies in the closing months of the year. Quarterly GDP growth figures in export-oriented economies of China, the Republic of Korea and Singapore show this trend (Figure 1).

**Figure 1: Quarterly real GDP growth rates, 2008, selected economies in Asia**




*Source:* Official national statistical office data.

In China, growth slowed to 6.8 per cent in the fourth quarter of 2008, down sharply from 10.6 per cent in the first quarter of the year and representing essentially no growth over the prior quarter. In the Republic of Korea growth tumbled from 5.8 to -3.4 per cent and in Singapore output plummeted from 7.0 per cent to -3.7 per cent. In contrast, growth in

---

2 ILO estimates on the basis of IMF: *World Economic Outlook Update: Global Economic Slump Challenges Policies* (January 2009).

3 The "developing Asia" region is an IMF regional grouping and is comprised of Bangladesh, Bhutan, Cambodia, 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), the Republic of Korea, Singapore and Taiwan (China).

Indonesia, a country substantially less reliant on exports, declined more moderately – from 6.3 per cent to 5.5 per cent.

By early 2009, the outlook in most economies in Asia had deteriorated much further and growth in the region is now expected to fall to the lowest level since the Asian financial crisis (see Box 1). Current forecasts indicate that economic growth in the Asian region as a whole will drop to 2.3 per cent in 2009. Growth in developing Asia will decline to 5.5 per cent, with only 2.7 per cent growth projected in the ASEAN-5 (Indonesia, Malaysia, Singapore, the Philippines and Thailand) versus a prior forecast of 4.2 per cent in November. The growth projection for Asia's newly industrialized economies was revised downward a full 6 percentage points in the IMF's latest forecast, and is now expected to be negative 3.9 per cent in 2009. Indeed, recent weeks have witnessed a flurry of downward revisions to growth across the region by central banks and national forecasters:

- **Cambodia** lowered its growth forecast for 2009 to 5 per cent. This is less than half the rate achieved in 2007.[4]
- In **China**, the Government's target for growth in 2009 is 8.0 per cent; however the current IMF forecast expects growth to decline to 6.5 per cent.
- In **India**, growth declined to 7.3 per cent in 2008, down from 9.3 per cent in 2007. Current Government estimates are for 6.5-7.5 per cent growth in 2009, but the current IMF forecast is for growth to fall to 5.1 per cent.
- **Indonesian** officials expect a further deceleration in 2009 – with growth between 4.5 and 5 per cent.[5]
- The Bank of **Japan**'s (BOJ) currently forecasts that the economy will shrink by 1.8 per cent in the current fiscal year and by 2.0 per cent in the following fiscal year. In October, the BOJ had forecast growth of 0.1 per cent and 0.6 per cent, respectively, for these periods.[6]
- The **Korea** Development Institute forecasts growth of 0.7 per cent this year, with several outside analysts projecting negative growth for the year.[7]
- Growth in **Pakistan** is expected to decline sharply in 2009, to around 2.9 per cent versus 5.8 per cent in 2007.[8]
- Growth in the **Philippines** declined to 4.2-4.5 per cent in 2008,, from 7.2 per cent in 2007 and is expected to fall further to 2.2-3.4 per cent in 2009.[9]
- **Singapore**'s Ministry of Trade and Industry now expects GDP growth in 2009 to fall to between -5.0 and -2.0 per cent, as opposed to the previous forecast of 1.0 to 2.0 per cent growth.[10]
- The Bank of **Thailand** cut its 2009 growth forecast to just 0.5-2.0 per cent, less than half the growth rate posted in 2008.
- In **Viet Nam**, the Government has cut its 2009 growth target from 7.0 per cent to 6.5 per cent[11]; however the IMF has forecast growth to fall even further to 5.5 per cent.

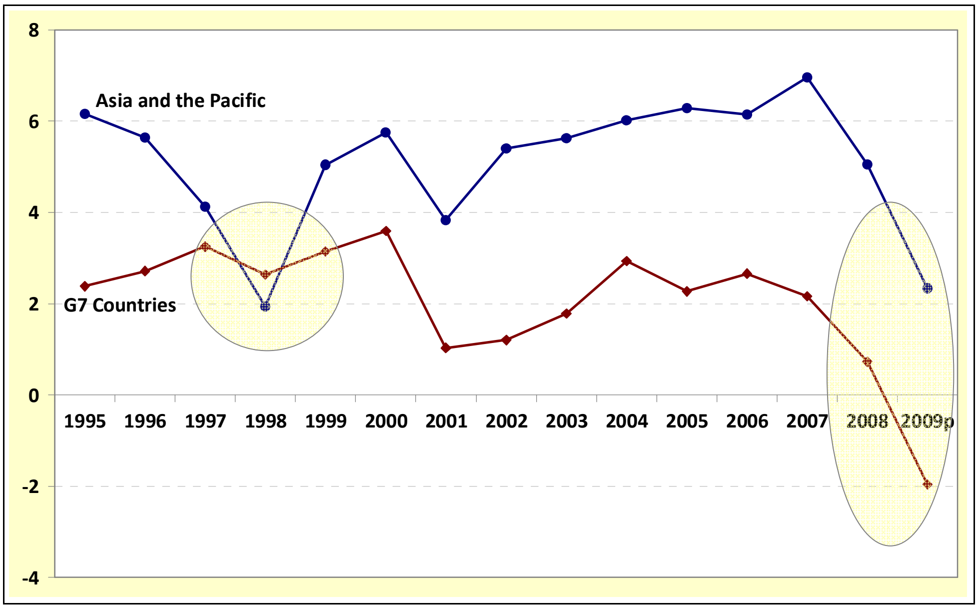
[4] Nguon Sovan: "Government revises down economic growth", *The Phnom Penh Post*, 15 December 2008.
[5] "Indonesia GDP at 6.2% in 2008", *ASEAN Affairs*, 2 January 2009.
[6] Tetsushi Kajimoto: "BOJ cuts GDP forecast, contraction seen in 2009/10", *Reuters*, 21 January 2009.
[7] "S Korea GDP growth seen slowing to 0.7%", *Reuters*, 21 January 2009.
[8] IMF: World Economic Outlook Database (October 2008).
[9] William E. James et al: *The US Financial Crisis, Global Financial Turmoil, and Developing Asia: Is the Era of High Growth at an End?*, ADB Economics Working Paper Series No. 139 (Manila, December 2008).
[10] Singapore Department of Statistics.
[11] "Vietnam cuts 2009 growth forecast to 6.5 pct-paper", *Reuters India*, 6 November 2008.

**Box 1**
**The current crisis in perspective: A look back to 1998**

The Asian financial crisis represented a large negative shock to the affected economies in the region. GDP growth rates in Indonesia, the Republic of Korea, Malaysia, and Thailand plummeted into negative territory in 1998. The drop in GDP growth from the trend during the previous five-year period was greatest in Indonesia (20.7 percentage points), followed by 18.6 percentage points in Thailand and 17.1 percentage points in Malaysia. Yet, many large developed economies outside Asia recorded positive growth amid the crisis, as reflected in growth performance of the G7 Countries, which showed only a modest decline in 1998 (Box Figure 1). Trade linkages with these economies, in turn, helped sow the seeds of recovery for the hardest hit Asian economies.

The emerging picture of today's global economic crisis on the Asian region looks quite different. Although most Asian economies are projected to experience a significant growth slowdown in 2009, current forecasts are that they will be able to maintain positive growth because of smaller relative exposure to global financial markets and much stronger initial fiscal positions. However, export-dependent Asian economies are far less able to rely upon consumers in developed economies, as many of Asia's developed economy trading partners are already in recession, with projected negative growth in 2009. In the absence of rebalancing toward more domestic demand-led growth in these economies or substantial improvements in growth in Asia's trading partners, the prospect of a quick recovery in the Asian region will remain uncertain.

**Box Figure 1: Annual GDP growth (%) 1995-2009, Asia versus the G7 Countries**




*Source:* ILO calculations on the basis of IMF: *World Economic Outlook Update: Global Economic Slump Challenges Policies* (January 2009).

While growth is slowing rapidly across the vast majority of countries in the region, a few economies have managed to buck the trend thus far. For instance, Bangladesh has not yet experienced a major slowdown – and there are signs that the country's garment and textile industry has held up reasonably well thus far – benefitting from some firms' decisions to relocate their production in part due to lower relative production costs.[12]

This indicates that the current economic downturn may lead to increased competition among firms and economies in the region to attract foreign investment. If such competition is based solely on low comparative costs, it is unlikely to be a viable long-term strategy, especially when it occurs alongside poor working conditions and at the expense of fundamental labour standards. As adverse working conditions and the neglect of the fundamental principles and

[12] Ruma Paul: "Bangladesh's BoP swings into deficit on imports rise", *Reuters India*, 4 February 2009.

rights at work are often associated with low productivity employment, such a "race to the bottom" strategy is likely to erode competitiveness over time.[13]

Economic growth has also held up relatively well thus far in many Pacific island countries that are not as linked with global financial markets and the broader global economy, though some have been affected by declining remittances and tourist arrivals. Yet the relative isolation of these economies is a mixed blessing: when the crisis recedes and economies resume their growth, they will not be as likely to benefit from the broader recovery.

### *1.1 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 being affected is essential for assessing the likely labour market impacts and for designing appropriate policies to mitigate the adverse effects.

### *Declining demand for Asian exports and lowered industrial output*

Exports have played a major role in Asia's phenomenal growth performance, with many Asian economies highly reliant on exports to earn foreign currency and fuel domestic development. Heading into the crisis, manufacturing exports comprised more than 140 per cent of GDP in Singapore, nearly 70 per cent in Malaysia, more than 40 per cent in Cambodia and Thailand and more than 30 per cent in China, the Republic of Korea, the Philippines and Viet Nam. On the other end of the spectrum, manufacturing exports make up less than 10 per cent of GDP in India and Pakistan and only around 11 per cent in Indonesia (see Annex Figure 1).

As consumers in developed economies abruptly cut back on spending in 2008, demand for Asia's exports have fallen sharply. Sales of labour-intensive manufacturing products including toys and games, footwear and clothing are down sharply in the United States and Europe as are higher value-added goods such as computers and related equipment and automobiles.[14] Merchandise exports have been falling since September in all Asian countries for which data are available, and sharp further declines are expected in the first quarter of 2009. Total world trade volumes are expected to contract in 2009 – which would be the first time that this has occurred since 1982 – and thus this important source of growth in many Asian economies is unlikely to recover soon.[15]

Accordingly, many Asian firms are sharply cutting production, with an unmistakable rise in factory closures. Industrial production plummeted in the closing months of 2008, down more than 7 per cent in November versus the prior year in Malaysia, Singapore and Thailand with an astounding 16.6 per cent decline in Japan.[16]

Though not technically an export, decreased tourism is another important way in which decreased foreign consumption is likely to have an adverse impact on the Asian region. The tourism industry is very important in many Asian economies, notably in Cambodia and Thailand. Falling numbers of arriving tourists, sharp declines in hotel occupancy rates and tourists

---

[13] ILO: *Labour and Social Trends in ASEAN 2007: Integration, Challenges and Opportunities* (Bangkok, 2007).
[14] William E. James et al: *The US Financial Crisis, Global Financial Turmoil, and Developing Asia: Is the Era of High Growth at an End?*, ADB Economics Working Paper Series No. 139 (Manila, December 2008).
[15] World Bank: *Weathering the Storm: Economic Policy Responses to the Financial Crisis* (November 2008).
[16] Official government estimates, national statistical offices.

shortening holidays are all having a negative impact on leading tourist destination countries in Asia.[17]

### *Pressures on domestic demand*

Although the region's performance vis-à-vis exports 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. Accordingly, adverse impacts of the crisis on consumption and investment are important mechanisms through which the crisis is likely to reduce growth in the region. Related to this, many fiscal stimulus packages that have been announced in recent months across Asia indicate that governments recognize the serious threat that declining private consumption and investment pose and that public spending must play a major offsetting role to support aggregate demand (see Section 3).

How important are domestic consumption and investment as compared with exports? Figure 2 reveals that Pakistan, Bangladesh, India and Indonesia stand out as having very large domestic consumer markets, with household consumption more than five times as large as exports in Pakistan 3.5 times as large in Bangladesh and more than twice as large in India and Indonesia. In Cambodia and the Republic of Korea, household consumption is around 1.2 times the size of exports. On the other hand, in Viet Nam, China and Thailand, private consumption amounts to only around 80 per cent of exports. Malaysia and Singapore stand out with their very small relative consumer markets – in Singapore, domestic consumption is less than one-fifth the size of exports.

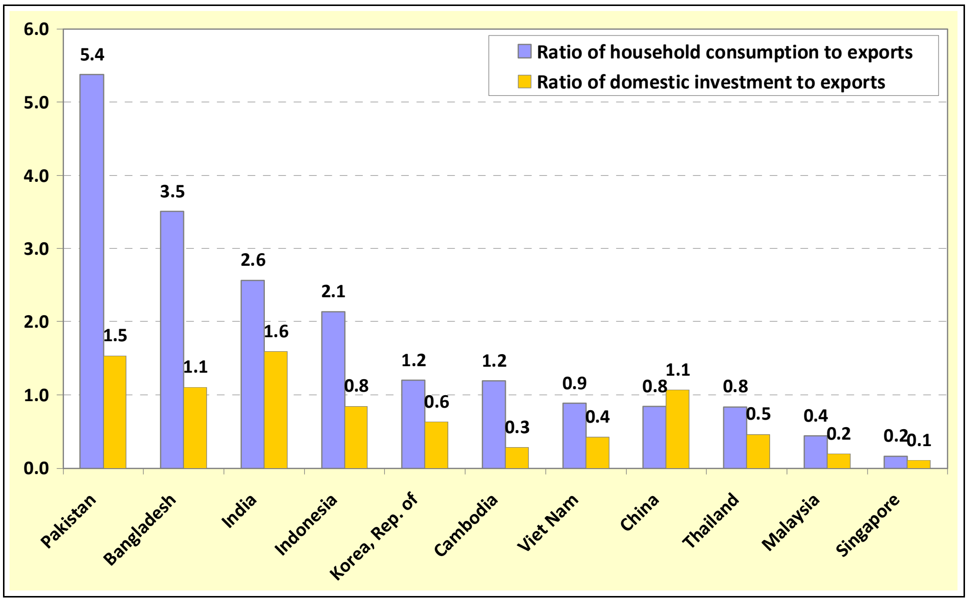
In December, consumer confidence in the Republic of Korea fell to its lowest level since the Asian financial crisis. In a survey of consumers in China in November, only 46 per cent indicated that they thought that the country's economic situation was good, as compared with 90 per cent the previous year.[18] The extent of the impact of the current crisis on consumption in Asia remains to be seen, but there is a clear risk that softening private consumption could exacerbate the adverse effects of falling exports.

The impact of the crisis on domestic investment will also be a major determinant of how economies in the region weather the crisis – particularly in economies such as China, India, Pakistan and Bangladesh where investment comprises a larger relative share of GDP than exports. Along with manufacturing, the construction industry in many economies is among the hardest hit thus far in the crisis, with sharp downturns in construction already observed in China, the Republic of Korea and Thailand.

The availability of credit will be crucial to a recovery in investment. As their balance sheets were fairly healthy heading into the crisis, most banks in Asia have not suffered substantial fallout in terms of availability of credit. There is a risk, however, that in a worsening or prolonged downturn, banks' balance sheets may deteriorate and their willingness to lend decrease, which would adversely affect firms' access to credit. Under such a scenario, overall investment would suffer, with Asia's small- and medium-sized enterprises (SMEs) likely to be the hardest hit, as they are typically less able to finance operations on their own as compared to large firms.

[17] James Pomfret: "Asian tourism set for rocky ride in 2009", *Reuters*, 21 January 2009.
[18] Dhara Ranasinghe: "Asia holiday sales test depth of economic woes", *Reuters UK*, 19 January 2009.

**Figure 2: Ratio of household consumption and domestic investment to exports, 2007, selected economies in Asia**




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

### *Falling foreign direct investment*

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 both capital and more advanced technologies. As a share of gross fixed capital formation, FDI comprises some 60 per cent in Singapore, 52 per cent in Cambodia, more than 40 per cent in Fiji and 25 per cent in Viet Nam (see Annex Figure 2). FDI also accounts for a large share of capital formation in Malaysia, Pakistan, Thailand and the Philippines. In 2008, growth in FDI turned negative in several Asian countries, including Singapore, Thailand and Indonesia.[19] Overall, current estimates are that total FDI to developing countries will shrink by more than 30 per cent in 2009, and while Asia 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.[20]

### *Reduced remittances*

As migrant workers' incomes are at risk in the current economic downturn, so too are remittances, which represent a vital source of income and foreign exchange for many Asian economies, and in particular for poor households. Remittances comprise one third of GDP in Tonga, 11 per cent in the Philippines, and between 5-10 per cent in Bangladesh, Sri Lanka, Viet Nam and Mongolia (see Annex Figure 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.[21] As the United States is a key country of origin (accounting for 44 per cent of East Asia and the

[19] United Nations Conference on Trade and Development (UNCTAD): "Global Foreign Direct Investment now in decline – and estimated to have fallen during 2008", UNCTAD/PRESS/PR/2009/001.rev1, 19 January 2009.
[20] Patricia Lui: "Emerging Markets Face $180 Billion Investment Decline", *Bloomberg*, 21 January 2009.
[21] 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).

Pacific's remittances and 28 per cent of flows to South Asia), the severe recession in the US is likely to have an adverse effect on remittance flows to Asia.

In addition to 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 countries to government budget items directed toward economic development and poverty reduction.

### *1.2 Shifting balance of risks*

In the early part of 2008, the major concern in many Asian economies was not that economic output might slow suddenly, but rather that high inflation – particularly sharp rises in the price of food and commodities – would erode social progress and increasingly threaten social stability. However headline inflation in Asia peaked across most of Asia in the summer of 2008, and as the global price of oil began its steep descent in July (falling more than 70 per cent by December) inflation has fallen in most economies in the region, with the balance of risks quickly shifting to slowing growth. Yet, given that overall inflation rates remain above target in many economies in the region, the challenge now facing many central bankers in the region is to provide needed monetary stimulus while keeping inflation expectations in check.[22]

Striking the right balance to address this challenge is made more critical by the large increase in food price inflation that occurred in the year preceding the onset of the crisis. While inflation is clearly decelerating and the risk of deflation is now real, prices of many food items remain higher than in recent years. This means that the poor face a double crisis – high costs for basic necessities on which they spend the majority of their income, along with economic stagnation that threatens their livelihoods.[23]

---

[22] William E. James et al: *The US Financial Crisis, Global Financial Turmoil, and Developing Asia: Is the Era of High Growth at an End?*, ADB Economics Working Paper Series No. 139 (Manila, December 2008).
[23] FAO: *The State of Food Insecurity in the World 2008* (Rome, December 2008).

## 2. Labour market and social consequences of the crisis

### *2.1 Transmission mechanisms to the labour market*

The global financial and economic crisis has impacted national labour markets in Asia and the Pacific through a variety of channels, including declining demand for labour, downward pressure on wages, falling remittances, decreased job security and rising informal employment, among others. The challenges facing countries depend upon the size of the economic shock taking place, as well as the national circumstances such as existing labour market institutions, the extent of social protection coverage and many other factors.

Given the origination of the global crisis in the United States financial markets, workers from the well-developed and highly integrated financial services industries of Australia, Hong Kong (China), Japan, New Zealand, Republic of Korea, and Singapore were affected from the outset.[24] In these economies, job losses in the finance sector took place immediately, affecting primarily white collar workers. In some countries, the adverse effects on retrenched workers have been buffered by unemployment and social insurance schemes.

In developing Asia, the labour market was impacted later through the export manufacturing channel. In particular, as overseas consumer demand fell, economies with extensive linkages to the global production chain, including Malaysia, Thailand and Viet Nam, faced increasing retrenchments in this sector. Many of these export industries (such as textile, garment, electronics) are not only labour-intensive but also consist of a majority of women workers who have been disproportionately susceptible to the job cuts.[25] Moreover, employment prospects have worsened as new recruitment has stalled throughout Asia. The bleak situation has intensified even further due to the ongoing moderation in FDI to the region, which has impeded the rate of new enterprise creation and job growth. Sectors dominated by male workers (such as engineering and steel) were not spared either. As the impact has spread to domestic markets, the construction industry has also been hit hard.

Another conduit through which the global crisis is likely to have labour market and social impacts is international migrant workers and their remittances.[26] As global demand for workers contracts, the flow of migrant workers from developing Asia will moderate in 2009.[27] For labour-sending countries, this will exacerbate the challenge of mitigating job losses and generating new employment domestically. There is also an alarming concern that animosity towards migrants and social tension may rise as employment prospects for both migrants and nationals become scarce.[28]

#### *Shift to informal and vulnerable employment*

When an external shock causes an initial fall in formal sector urban employment, a majority of workers in developing countries simply cannot afford to remain unemployed. Their options are to seek new wage employment, turn to the informal service sector where pay is often lower and

---

[24] Bettina Wassener: "After lag, job losses hit banks across Asia", *International Herald Tribune*, 18 November 2008.

[25] See: Amelita King Dejardin and Jessica Owens: *The Global Economic Crisis: Impacts and Responses from a Gender Perspective*, ILO Technical Note (Geneva, ILO, 2009).

[26] 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).

[27] 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).

[28] "Global migration and the downturn: The people crunch", *The Economist*, 15 January 2009.

job quality is inferior, or migrate back to rural areas to pursue work, typically in relatively low-productivity agriculture. The response of retrenched workers is shaped by their gender, household circumstances, individual savings and existing social networks (see Box 2).

**Box 2**
**Workers' responses to the financial crisis: findings from Cambodia**

Recent case studies from Cambodia reveal how workers have reacted to job losses due to the economic crisis. The textile and clothing sector, which accounts for around 16 per cent of Cambodia's GDP, has been shedding jobs because of a decline in overseas demand. The sector is expected to shed more than 44 thousand jobs from 2008 to 2009. More than 80 per cent of garment workers are female and most of them are internal migrant workers, who are responsible for financially supporting their rural families. In addition, workers who have not been laid off have had to confront a reduction in working hours and monthly wages.

The retrenched migrant workers basically face three options: find new employment, invest time and resources in upgrading skills or return to their rural homes and agricultural employment. When seeking a new job, retrenched workers prefer staying in the same sector and a job that also employs others from their own social networks. The channels of job search information are often informal: primarily personal networks, referrals from trade unions, NGOs, and relatives, and then formal recruitment information from newspapers. The duration of the job search depends on available resources. Female job seekers often have savings that could cover urban living expenses for up to 30 days while male workers are reported to have much less savings on average. Their decision to continue the job search depends largely on their family circumstances, including family assets and savings and the number of children in the household. Returning to their rural homes is often the least preferred and last option.

*Source:* Kang Chandararot et al: *Impact of the Global Financial and Economic Crisis on Cambodia: A Rapid Assessment* (Bangkok, ILO, 2009).

In situations of high levels of poverty and inadequate social safety nets, a grave concern is the expansion of the informal economy. Although the working conditions in informal employment are generally more hazardous and precarious, workers who are cut from formal wage employment frequently are left with few alternatives. Evidence from the past Asian financial crisis corroborates this expected adverse impact on vulnerable employment and poverty (see Box 3). In addition, for households struggling to stay out of poverty, the current global crisis has forced some laid-off workers to resort to income sources that endanger their physical well-being, merely to sustain the basic livelihood of their families.[29]

**Box 3**
**Asian financial crisis: Impacts on vulnerable employment and poverty**

In countries where the size of the formal economy is relatively small and social protection coverage is limited, external economic shocks such as the Asian financial crisis and the current global economic turmoil tend to increase the share of vulnerable employment, which often occurs hand in hand with a rise in poverty. In Indonesia, the unemployment rate climbed from 4.4 per cent in 1996 to 5.4 per cent in 1998 (representing an increase of 1.1 million unemployed over a two-year period). The larger impact, however, was on the number of workers in vulnerable employment: in one year alone, from 1997 to 1998, the level of formal wage employment shrank by 1.5 million (4.9 per cent) while the number of workers in vulnerable employment increased by 3.7 million (6.8 per cent).

Even more concerning was the increase in poverty levels. Despite progress in reducing the US$2 per day poverty rates from 64.2 per cent in 1993 to 59.7 per cent in 1996, the crisis reversed the trend and pushed up the rate sharply, to 76.0 per cent in 1998. The impacts of the crisis disproportionately hit the poor, who were largely left outside of formal social insurance schemes.

*Source of labour market data*: ILO: Key Indicators of the Labour Market (KILM), 5th Edition.

[29] The diamond trade in India is a notable case in point. See: Prashant Dayal: "Laid-off diamond workers easy prey for clinical trials", *Times of India*, 7 January 2009.

### *Impact on rural employment and poverty*

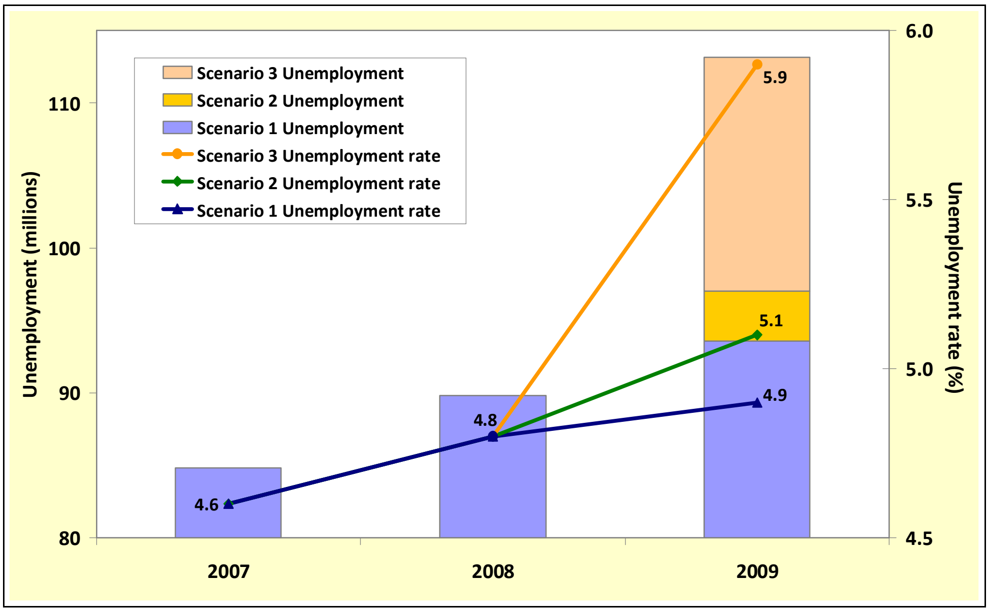
Although the main transmission channels have primarily affected urban labour markets, the consequent effect on the rural economy, employment and household income cannot be understated. In many parts of developing Asia, job losses in export manufacturing often affect the rural-to-urban migrants and their income support to their rural families. For those retrenched workers who are not able to find new urban employment, whether in the formal or informal economy, seeking rural work opportunities is often the only remaining option. This process of reverse migration has already begun throughout the region, notably in China, India and Viet Nam. Furthermore, this shift will often coincide with reduced wages and household income.

The eventual impact on rural households and poverty will also depend largely on the level of the rural community's geographic isolation and connectivity with national and global markets.[30] In countries such as Cambodia and Thailand, where rural areas are fairly integrated with and more vulnerable to adverse trends in the urban economy, rural poverty will likely be affected rather significantly. On the other hand, rural economies that have weaker urban linkages may be less impacted. Countries may also observe considerable variation in poverty increases at the subnational level, reflecting the unevenness in the economic slowdown and the disparity in geographic conditions and degree of market integration prior to the crisis.

### *2.2 Regional estimates of impact on unemployment*

One way in which the economic crisis is impacting on Asian labour markets is through declining demand for labour – particularly in terms of a reduction in wage employment. This has resulted in rising unemployment and underemployment rates, reduced working hours and declining labour force participation (due to discouragement among workers unable to find jobs).

**Figure 3: Unemployment in the Asia-Pacific region on the basis of three scenarios**




*Source:* ILO: Trends Econometric Models (December 2008). See also Annex 1.

[30] Martin Ravallion: *Bailing out the World's Poorest*, Policy Research Working Paper No. 4763 (Washington, DC, World Bank, October 2008).

The ILO has prepared scenarios of the potential impact of the financial crisis on labour markets – through projections and analysis of key labour market indicators including unemployment, vulnerable employment and poverty among workers. Data for 2007 and 2008 are ILO estimates, and each projection for 2009 consists of three scenarios.[31]

Along with the ongoing deceleration in growth in many economies, the estimated number of unemployed workers in Asia rose by 5 million in 2008, to 89.8 million, or by 0.2 percentage points to 4.8 per cent of the labour force (Figure 3). All four Asian subregions[32] saw moderate increases in unemployment rates, but average unemployment rates in Asia remain low compared with many other regions of the world (Annex Table 2 provides sub-regional estimates and projections).

The most optimistic scenario for unemployment in 2009 was constructed on the basis of the IMF GDP growth projections released in November 2008. At that time, growth for the Asian region was projected to be 4.8 per cent for 2009. As this projection has now been revised down to 2.3 per cent, this scenario is now very unlikely and is provided only as a comparative benchmark – to show the path that the region was once on.[33]

Given that the economic outlook has deteriorated as compared with the growth projections utilized for Scenario 1, the second scenario is currently considered to be more realistic. In this scenario, the number of unemployed in Asia would increase by 7.2 million to a rate of 5.1 per cent. In this scenario, fairly sharp rises would be expected in the unemployment rates in the East and South-East Asian subregions, reflecting higher shares of wage employment in these subregions together with considerable reliance on exports.

In the most pessimistic scenario, the number of unemployed in Asia would surge by 23.3 million, to a rate of 5.9 per cent. The evolution of such a scenario would represent an unprecedented increase in unemployment in the region as a whole and may not be likely given the large share of workers living with their families near or below the poverty line who simply cannot afford to be unemployed based on the standard definition. Yet there is potential for this scenario to emerge – particularly in the more developed economies in Asia, with relatively developed social insurance schemes, as well as in the South-East Asian region, which is highly dependent upon manufacturing exports and where the subregional unemployment rate was as high as 6.4 per cent (the predicted rate under scenario 3) as recently as 2004.[34]

Given that the number of unemployed is projected to increase in all three scenarios for 2009, 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 labour force growth. Over 2009 and 2010, an estimated 51 million additional jobs will be needed to absorb Asia's growing labour force, with the largest numbers of jobs needed in Asia's largest economies: India (20.3 million), China (10.9 million) and Indonesia (3.6 million). Countries with the largest rates of expected labour force growth include Pakistan, Cambodia, and the Philippines, where the labour force is expected to grow respectively by 6.1 per cent, 4.9 per cent, and 4.9 per cent from 2008-2010 (see Annex Figure 4).

---

[31] Details on the methodologies used in constructing the scenarios are provided in Annex 1.

[32] Sub-regional country groups are provided in Annex Table 1.

[33] Figures corresponding to sub-regional scenarios are provided in Annex Table 2.

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

As the crisis is likely to lead to a substantial deceleration in economic growth in these economies, labour market pressures are likely to intensify.

Furthermore, age- and gender-disaggregated projections raise additional concerns for women and youth. Women are likely to be harder hit by rising unemployment: even in the most optimistic scenario, the number of unemployed women would rise by 4.4 per cent, as compared with 3.8 per cent for men.[35] This, in part, reflects the large share of women workers in key sectors that will likely be negatively impacted by the crisis.

Youth are also likely to be disproportionately affected by the crisis: already in 2008, youth in Asia were more than 3 times as likely as adults to be unemployed. In South-East Asia, the youth unemployment rate stood at 15 per cent 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 by firms, 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 employment opportunities.

In China, for example, an estimated 6.1 million new college graduates will enter the labour market in 2009, joining the 4 million from previous years who are still seeking employment.[36] Rising and/or longer-term unemployment among youth not only represents an immediate waste of productive potential, it also threatens to reduce the potential productivity of these young unemployed at later stages in their careers, and thereby can have an adverse impact on productivity and output growth in the medium and long term.

### *2.3 Regional estimates of impact on vulnerable employment*

The economic crisis and corresponding decline in production is likely to result in a shift away from more formal, higher value-added wage employment to lower-productivity and informal economic activities in developing Asia. One useful indicator in this regard is the number and share of workers in vulnerable employment, which is defined as the sum of own-account workers and unpaid family workers.[37] Many workers in these types of employment status in developing economies do not enjoy social protection in case of job loss, personal or family illnesses or other difficulties; they are less likely than formal wage employees to receive an adequate income and to have respect of their fundamental labour rights. Women comprise a disproportionately large share in vulnerable employment throughout the region.

Figure 4 provides the main vulnerable employment scenarios for 2007-2009.[38] Overall in Asia and the Pacific, an estimated 1.08 billion workers, 60.4 per cent of all workers in the region, were classified as being in vulnerable employment in 2008. South Asia has the highest share of vulnerable workers, at approximately 75 per cent, with over 60 per cent of workers in East and South-East Asia classified as being in vulnerable employment (see Annex Table 3).

---

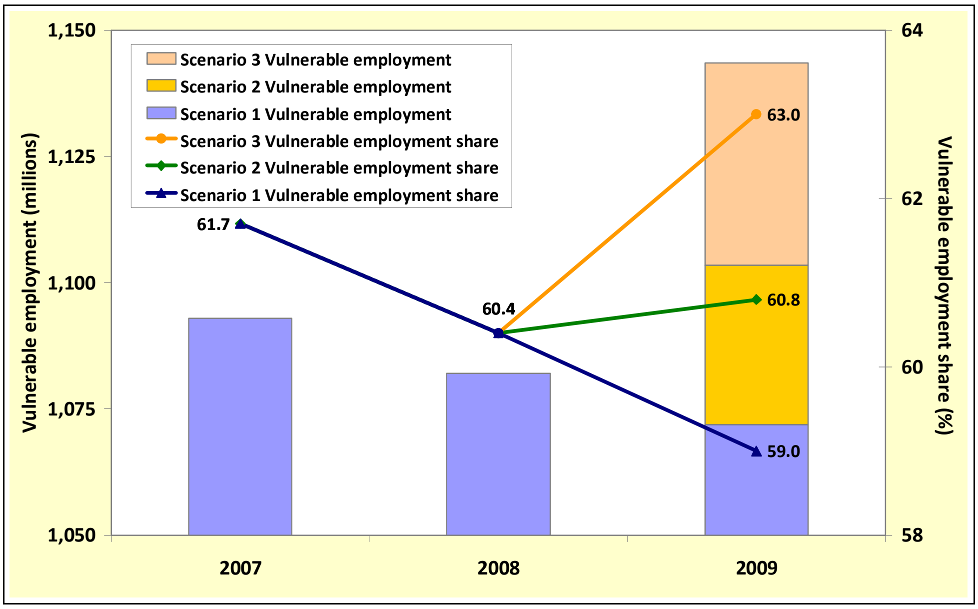
[35] ILO: Trends Econometric Models (December 2008).

[36] "A great migration into the unknown: Global recession is hitting China's workers hard", *The Economist*, 29 January 2009; Dune Lawrence: "Chinese graduates recruited for rural work", *International Herald Tribune*, 16 December 2008.

[37] For a discussion of this definition of vulnerable employment, refer to ILO: *Global Employment Trends: January 2009* (Geneva, 2009), p. 11. 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 a downsizing firm.

[38] Details on the methodologies used in constructing the scenarios are provided in Annex 1.

**Figure 4: Vulnerable employment in the Asia-Pacific region on the basis of three scenarios**




*Source:* ILO: Trends Econometric Models (December 2008). See also Annex 1.

Scenario 1, the most optimistic scenario, once again shows the path that the region was on prior to the full onset of the crisis. The second scenario, which was calculated on the basis of the relationship between vulnerable employment and GDP growth witnessed during a prior year of deteriorating economic growth in each country, the number of workers in vulnerable employment in Asia would increase by more than 21 million in 2009. This result is driven by a very large increase of 16.1 million (or 3.4 per cent) in South Asia and reflects the notion that economic shocks in the South Asian region – a region characterized by large shares of workers in informal employment – impact less on the number of jobs as opposed to the overall quality of employment.

In the third scenario, which represents a very pessimistic outcome, the number of male and female workers in vulnerable employment in Asia would grow by an alarming 61 million in 2009 – an increase of nearly 6 per cent. While this represents an extreme increase, it is not outside the realm of possibilities given the large economic shock that is occurring. In this scenario, the share of workers in vulnerable employment in Asia would reach 63 per cent in 2009, a figure that was seen as recently as 2005 for the Asian region as a whole. For the East Asia and South Asia subregions, it would only require backtracking to the vulnerable employment rates of 2006. Given the accelerating loss of jobs in export-oriented manufacturing industries, this scenario may unfortunately be realized.

### *2.4 Regional estimates of impact on working poverty*

As many workers in vulnerable employment are on the one hand highly susceptible to lost income due to economic shocks and on the other, more likely to be in the lower end of the income spectrum, trends in vulnerable employment are very much linked with trends in working poverty. There is a great deal of uncertainty as to how the current economic crisis will impact on overall levels of poverty and working poverty in the Asian region. As with unemployment and vulnerable employment, three scenarios have been constructed.

The projection for scenario 1 – which gives the path that the region was on prior to the full onset of the crisis – shows a continued reduction in extreme working poverty, from 23 per cent in 2007, to 20.1 per cent in 2009. The total share of workers living on less than US$2 per day would also decline, though the number of workers living in moderate poverty (less than US$2 per day but above the extreme poverty line) would rise moderately.

The projection for scenario 2 indicates that even a moderate deterioration in earnings for borderline poor workers (sufficient to pull workers who are currently living 10 per cent above the extreme US$1.25 poverty line – at US$1.375 per day), the number of extreme working poor would rise by over 52 million over the 2008-2009 period, to 25.3 per cent of the total employed. This scenario would essentially take the Asia and the Pacific region back to the working poverty rate of 2006.

The projection for scenario 3 indicates that a more substantial deterioration in earnings for borderline poor workers (sufficient to pull workers who are currently living 20 per cent above the extreme US$1.25 poverty line), would result in a dramatic increase in the number of extreme working poor of more than 140 million by 2009, to 30.3 per cent of the total employed. This scenario would represent a step back for the Asia and the Pacific region to the working poverty rate of 2004.

### *2.5 Sectors and groups highly vulnerable to the crisis*

While the estimates and projections above highlight projected job losses, shifting composition of employment throughout the region and possible effects on poverty, they do not reveal the severity of the impact of the crisis on certain groups of workers and on specific sectors. The most recent national data indicate a significant employment impact in the manufacturing sector for a number of countries. As expected, workers in key export industries in the region, including garment and textiles and electronics, are already facing retrenchments and further reductions are expected this year:

- In **China**, job losses from large-scale factory closures, due to not only the crisis but also the industrial restructuring to higher value-added production prior to the crisis, and reverse migration are exacerbating the challenge of new job creation for both young male and female graduates (see Box 4).

- **Indian** workers in sectors with high exposure to the global market such as civil aviation, textiles, leather, gems, and jewellery, which employ millions of women workers, have already faced job cuts. Furthermore, with the country's subregional diversity, tailored assistance is critical to states with high global integration including Kerala, where tens of thousands of workers are expected to face job losses in key export industries such as marine products and textiles.[39]

- During the last two months of 2008, job reductions in **Indonesia** exceeded 40,000, mostly in the country's electronics and manufacturing sectors, but additional retrenchments are also expected in the construction and textile sectors.[40]

- In **Malaysia**, the third quarter 2008 labour force data show that employment in manufacturing fell to 17.6 per cent of total employment, a drop from 19.0 per cent over the same period in 2007.[41] Moreover, more job cuts are expected in the electronics industry.[42]

---

[39] Centre for Development Studies: *Report on the Global Financial Crisis and Kerala Economy: Impact and Mitigation Measures* (December 2008).

[40] Komara Djaja: *Impact of the Global Financial and Economic Crisis on Indonesia: A Rapid Assessment* (Bangkok, ILO, 2009); "Indonesia likely to cut 40,000 jobs by year-end", *Xinhua*, 12 December 2008.

[41] Malaysia Department of Statistics.

- Official data for the **Philippines** reveal a similar decrease in manufacturing jobs: from 9.1 per cent of total employment in October 2007 to 8.4 per cent in October 2008.[43] At a subsector level, reports also indicate that plant and machine operators and assemblers have lost 250 thousand jobs.[44]

- In **Thailand**, the share of employment in manufacturing fell from 15.1 per cent in the third quarter of 2007 to 13.8 per cent in the third quarter of 2008, while the share of employment in agriculture rose slightly, absorbing some of the losses in manufacturing.[45] In addition, according to the Fiscal Policy Office of the Ministry of Finance, unemployment in 2009 could reach 1.13 million, a substantial rise from the third quarter 2008 level of 450,000.[46]

- In **Viet Nam**, 300,000 additional workers in formal wage employment could be unemployed in 2009; while more than 35 million labourers in the countryside will likely face higher underemployment.[47]

**Box 4**
**Chinese labour market in the global crisis**

China, the factory of the world, has been experiencing unprecedented labour market pressures as approximately 20 million migrant workers who lost jobs in factories and cities have returned to their home villages, adding considerable pressure to rural labour markets where job opportunities are already scarce. According to a recent report, 95 per cent of returning migrant workers are unskilled, with low educational qualifications, making it more difficult for them to find a job or start a new business. Employment situations are grim in the central and western regions of the country.

An estimated 6.1 million new graduates will exert further strain on the labour market. These labour supply pressures are likely to put downward pressure on wages, especially in rural areas. As a result, the already visible income gap between middle- and upper-class city dwellers and rural workers is at risk of widening. Fostering employment creation during this time of crisis, while helping to offset lost income for workers that have lost their jobs will be essential tasks in order to sustain social harmony and promote a sustainable recovery in the labour market.

*Sources* Ian Johnson and Andrew Batson: "China's Migrants See Jobless Ranks Soar", *The Wall Street Journal*, 3 February 2009; Edward Wong: "College-educated Chinese feel job pinch", *The New York Times*, 24 January 2009; Simon Rabinovitch: "China's great migration wrenched back by crisis", *International Herald Tribune*, 30 December 2008; Liu Zhen and Langi Chiang: "China premier urges firms to avoid cutting jobs", *Reuters*, 23 December 2008.

### *Impact on workers in small- and medium-sized enterprises*

Within the impacted manufacturing industries, workers in SMEs, which employ the majority of female and male workers throughout developing Asia, have disproportionately felt the brunt of the crisis. With smaller cash reserves and limited credit support to meet existing debt obligations and sales orders, many SMEs that supply larger firms in national and global production chains have found few alternatives to laying off workers or suspending or closing their operations altogether (see Section 3). SMEs in non-manufacturing are also facing significant challenges. In

[42] Shamim Adam and Michael Munoz: "Malaysian Export Fall Most Since 2002 on Electronics", *Bloomberg*, 7 January 2009.
[43] Philippines National Statistics Office.
[44] Joseph T. Yap: *Impact of the Global Financial and Economic Crisis on the Philippines: A Rapid Assessment* (Bangkok, ILO, 2009).
[45] Thailand National Statistical Office.
[46] Wichit Chantanusornsiri and Nuntawun Polkuamdee: "Jobless rate seen rising to 3%", *Bangkok Post*, 28 November 2008.
[47] "300,000 workers may become unemployed in 2009", *Vietnam Net*, 23 December 2008.

the case of Cambodia, where SMEs employ 85 per cent of the labour force, widespread sector-wide slowdowns have also been recorded in construction and tourism.[48]

### *Contract and migrant workers among the least protected*

As businesses look for ways to survive the economic downturn, subcontract, casual, and temporary workers are often the most vulnerable to the initial factory job cuts. Shedding these workers is easier and less costly than 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 basic occupational safety kits or qualify for the severance pay or unemployment benefits to which their regular counterparts are often entitled.[49] The crisis has revealed many shortcomings in labour relations regimes and social protection systems that deserve more attention in some countries.

Similarly, overseas migrant workers, many of whom are hired as temporary workers, are often among the first to be dismissed during an economic downturn. In addition, many are not retained upon the expiration of their contract and are expected to return home.[50] However, migrant workers and nationals often compete in different segments of the labour market, and thus repatriating migrants may simply leave certain types of jobs unfilled despite the economic contraction. For these vulnerable workers, particularly those employed in low-skilled jobs, the main concern must be upholding their rights at work and ensuring fair treatment in light of deteriorating working conditions.

### *Poverty and child labour concerns*

During times of economic crisis, diminishing incomes constrain poor families in their decisions regarding household expenditures. Children may be pulled from school as education becomes less affordable, in terms of direct costs and foregone income, and may be forced to support their families through child labour.[51] While income alone is not the sole determinant of the decision to send a child to school or to work, its influence cannot be understated.

During the Asian financial crisis, a drop in enrolment rates and a rise in child labour were seen among 10-14 year-olds in the Philippines.[52] More recently, rapid inflation and macroeconomic instability in Pakistan have led to an observed rise in child labour as families have found few alternative coping mechanisms.[53]

Importantly, when poor families have to make a choice between sending a boy or girl to school, even under pre-crisis conditions, studies have shown that parents often choose to invest in the education of their sons so as to not lose their daughters' important household contribution. Furthermore, from a medium- and long-term perspective, enabling both girls and boys to have access to basic education is an absolute necessity to ensure that the future labour

---

[48] Kang Chandararot et al: *Impact of the Global Financial and Economic Crisis on Cambodia: A Rapid Assessment* (Bangkok, ILO, 2009).
[49] See Penchan Charoensuthipan: "Sweat & Tears – Subcontracted hands likely to be hit hardest", *Bangkok Post*, 7 January 2009; Vichaya Pitsuwan: "Amata foresees 30,000 job losses: Contract workers at estates most at risk", *Bangkok Post*, 29 December 2008.
[50] For further discussion, see: 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).
[51] See: Leah Mosel and Urmila Sarkar: *Impacts of the Global Financial and Economic Crisis on Child Labour and Youth Employment*, ILO Technical Note (Bangkok, ILO, 2009).
[52] J.Y. Lim: *The East Asian crisis and child labour in the Philippines*, ILO-IPEC working paper (Geneva, ILO, 2000).
[53] "Pakistan: Poverty forcing families to put children to work", *IRIN News*, 28 December 2008.

force has the foundation needed to engage in decent work and help drive national growth and development.

### *2.6 Impact on wages and inequalities and the role of social dialogue and standards*

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 per cent, far below the average annual growth in labour productivity over the same period.[54] Accordingly, the period was also characterized by rising inequalities in many Asian economies – for example between skilled and unskilled workers and between inhabitants in rural and urban areas. In addition, high and persistent gender-based wage inequalities are widespread in the region.

The substantial growth slowdown taking place is likely to lead to stagnant or falling real wages, with the potential for increased incidences of wage-related disputes. Relatively weak labour market governance in many countries in the region – with the overwhelming majority of countries having collective bargaining coverage rates of less than 15 per cent – makes the challenge of reaching negotiated solutions on a broad scale in regional labour markets more difficult.[55]

In this context, governments have an important role to play to protect workers' purchasing power in the face of difficult economic circumstances. Carefully designed and well-monitored minimum wages are one key mechanism. Collective bargaining can and should provide a means for workers and employers to negotiate solutions that are acceptable to both parties. Yet, given the large share of female and male workers in the informal economy in the region and the small share of workers covered by collective bargaining agreements, maintaining workers' overall living standards and ensuring that inequalities do not rise further will also depend critically upon whether the purchasing power of workers in the informal economy is sustained – a major task for social transfer programmes (see Section 3).

### *Impact of the crisis on industrial relations*

The global crisis has unquestionably brought some clear changes on industrial relations in the region, by exacerbating workers' sense of insecurity regarding retrenchments, non-payment of wages, changing working conditions and basic labour rights. But the direction of the changes differs from one country to another.

In Cambodia, industrial disputes in the garment sector increased significantly in 2008, adversely affecting the industrial relations climate and undermining the production capacity and stability of the sector.[56] In Viet Nam, the number of wildcat strikes decreased significantly in 2008, as workers became more concerned about their job security than about higher wages, which were the main cause of wildcat strikes in recent years. However, in Viet Nam and in China, factory closures have led to reported cases of worker protests, demanding fair compensation for unpaid wages.[57] The global crisis has also reignited the heated debate among the tripartite partners in the Republic of Korea and Japan on appropriate protection for flexible forms of employment such as temporary and part-time workers.

---

[54] ILO: *Global Wage Report 2008/09: Minimum wages and collective bargaining: Towards policy coherence* (Geneva, 2008).
[55] Ibid.
[56] Kang Chandararot et al: *Impact of the Global Financial and Economic Crisis on Cambodia: A Rapid Assessment* (Bangkok, ILO, 2009).
[57] Edward Wong: "Factories Shut, China Workers are Suffering", *The New York Times*, 13 November 2008; "Global crisis visits HCM City", *Vietnam News*, 20 November 2008.

Collective bargaining also has been impacted by the global crisis. Before the crisis, collective bargaining in China, for example, had been used to increase wages, narrow wage inequality and improve working conditions. The recent decision of the Government of China to freeze minimum wage adjustments on a temporary basis has sent a clear signal to the social partners at the enterprise level that the priority should be preserving jobs in exchange for wage freezes. On the other hand, in the case of Viet Nam, minimum wages have increased moderately as inflation still remains high.

***Finding negotiated solutions to mitigate impact on workers and enterprises***

To ease job losses, employers often seek alternative cost-cutting measures. For example, the International Organization of Employers (IOE) has issued recommendations to its members to sustain employment through reducing working time, redeployment of staff, restructuring work rosters and shift arrangements and filling work gaps through training, among others.[58] In Malaysia, the industrial area of Penang has implemented some of these measures, scaling back operations and extending year-end holiday plant closures in order to decrease labour costs and avoid job cuts.[59] In India, the national airline carrier has even proposed a scheme for employees to take unpaid leave for up to 3-5 years.[60] Meanwhile, the Trade Union Advisory Committee to the Organization for Economic Cooperation and Development has emphasized the importance of maintaining wage levels so that purchasing power and consumer demand do not deteriorate.[61] In addition, in Thailand, workers' organizations have set up service centres nationwide to assist retrenched workers.[62]

Whether the crisis works as a catalyst for further tripartite cooperation to mitigate the impacts of the crisis appears to depend on the existence of long-term trust among tripartite partners at the enterprise level and beyond, which has been nurtured and harnessed through years of collaboration during both good and bad times. The high degree of mutual trust and confidence among tripartite partners in Singapore, for example, which has been developed for several decades, allows for a constructive mechanism to address the labour market impacts of the crisis. There, recommendations have underscored decreasing non-wage costs and enhancing business efficiency before reducing wages and shedding jobs (see Box 5).

Furthermore, based on the initiative of the All China Federation of Trade Unions (ACFTU), the national tripartite consultation committee in China, in January 2009, adopted a resolution on the 'mutual commitment' campaign which urges social partners at the enterprise level to work together to ensure enterprise survival, protection of workers' rights and respect for the country's labour laws. The initiative has led to improved labour-management consultations

---

58 International Organisation of Employers (IOE): *Staff Retention Mechanisms in Crisis Period*, IOE Note (Geneva, January 2009).

59 "Penang factories take a longer break as demand slump," *The Malaysian Insider*, 19 December 2008.

60 K.P. Kannan: *National Policy Responses to the Financial and Economic Crisis: The Case of India* (Bangkok, ILO, 2009).

61 Simon Wilson: "IMF and Global Labor Unions: Economic Crises Hit Workers Hardest, Labor Conference Told", *IMF Survey Online*, 16 January 2009.

62 The Thai Labour Solidarity Committee (TLSC), an organization of 33 trade unions and workers' groups throughout Thailand, has set up more than 20 service centres for assisting workers affected by the economic crisis. These centres are located in all industrial areas nationwide and provide counselling services to workers who have been affected directly or indirectly by the present economic crisis. The centres provide legal counselling services on rights, labour protection and compensation; offer general information regarding training courses and government assistance programmes; and collect and submit statistics on the effects of the crisis on workers. See: *Proceedings of the ILO/Thai Trade Unions High-Level Workshop on Effective Trade Union Responses to the Global Economic Crisis*, Bangkok, 5 February 2009; "TLSC opens 21 centres for filing complaints of unemployment throughout the country", *Matichon Online*, 20 January 2009.

regarding lay-offs, skills training for workers and wage negotiations.[63] In Malaysia, the Ministry of Human Resources has set up a tripartite committee to monitor and manage retrenchment activities nationwide, establishing a channel to anticipate and mitigate the impacts of the crisis on workers and enterprises.[64] In India, a tripartite consultative meeting was held in January where the social partners called for an increase in social expenditures for the poor, better credit access for small firms and skills training as an alternative to retrenchments. The social partners have also formed a working group to collect and share good practices of social dialogue at the enterprise and industry levels to address the crisis.

**Box 5**
**Tripartite mechanisms for mitigating job losses in Singapore**

Facing an ongoing recession and a worsening economic outlook, in January 2009 the tripartite National Wages Council (NWC) of Singapore advised crisis-hit firms to implement shorter work weeks before cutting staff. In addition, the NWC also recommended a freeze in wages in order to moderate job retrenchments. However, across-the-board wage cuts were not appropriate as the fundamental problem during the recession was not wage competitiveness but rather a contraction in global demand.

The NWC has emphasized that wages are only one component of the total cost of doing business. It recommended that enterprises should pursue every measure possible to reduce unnecessary non-wage and overhead costs and improve business efficiency before laying off workers. The primary aim should be to both protect workers and maintain enterprise competitiveness during the slowdown. Although not mandatory, the recommendations of the NWC are followed by most companies in Singapore.

*Sources:* Singapore Government: *Budget Speech 2009: Keeping Jobs, Building for the Future* (January 2009); Sue-Ann Chia: "Freeze, cut pay to save jobs", *The Straits Times*, 16 January 2009.

These initiatives can provide mechanisms for workers and employers to prevent conflict from the outset and reach a balanced path to weathering the crisis. Strengthening industrial relations regimes and supporting social dialogue at the enterprise, sectoral and national levels must be the foundation to ensure not only respect for labour rights but also enterprise sustainability.

### *Ensuring social progress is not undermined during the crisis*

Given the economic and employment impact of the crisis, tripartite cooperation is essential to ensure that social progress is not undermined during this difficult period. Above all, the crisis cannot be taken as an excuse for the erosion of the fundamental rights at work, namely freedom of association, the right to collective bargaining, the elimination of all forms of compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.

In this regard, the World Bank has taken positive strides to ensure that the projects they finance are fully compliant with the ILO's core labour standards.[65] Their stance reflects the shared view that the fundamental rights at work must be respected in all countries and cannot be compromised. Notably, in Cambodia and Viet Nam, the ongoing reform of their labour laws demonstrates the importance of fundamental labour standards in addressing the economic crisis (see Box 6). Nonetheless, careful and continuous monitoring of the impacts of the crisis on

---

[63] For further discussion, see: Chang Hee Lee: *National Policy Responses to the Financial and Economic Crisis: The Case of China* (Bangkok, ILO, 2009).
[64] Joseph Sipalan and Syed Umar Ariff: "Panel to help monitor and redeploy retrenched staff", *New Straits Times*, 14 December 2008.
[65] International Trade Union Confederation: "Zoellick and Strauss-Kahn React to Unions' Demands on Growing Global Employment Crisis", 14 January 2009, http://www.ituc-csi.org/spip.php?article2713.

basic rights in the workplace will be vital to advancing social stability and development in the region.

**Box 6**
**Labour standards in the midst of an economic crisis**

Labour marker deregulation is not an answer to the economic problems that developing countries are facing during the crisis. In fact, the economic crisis has not fundamentally changed the contribution that good governance and respect for fundamental labour standards make to the long-term competitiveness and development of the economies in Asia and the Pacific:

- Appropriate labour standards support the stability of a country and thus its reputation as a reliable investment destination;
- Labour standards tend to have a positive impact on the quality of human resources and the quality of labour relations – both necessary for a gradual move towards higher value-added production;
- Observance of fundamental labour rights helps improve access to preferential trade, i.e. tariff reductions designed to reward good governance; and
- Respect for fundamental labour standards positively influences sourcing decisions in global supply chains that feel the need to protect brand products against backlashes from consumers or shareholders.

Therefore, it is no surprise that several countries in the region continue or even accelerate the reform of their labour laws, with the aim of bringing the laws in line with core labour standards and striking a balance between the need of employers for flexibility with the need of workers for security. Despite the current economic crisis, Viet Nam and Cambodia provide two notable examples of ongoing labour law reform:

- **Viet Nam** is undertaking a comprehensive revision of its Labour Code that should result in more modern, market-based rules for employment contracts; employment of women, young workers and persons with disabilities; working time; protection of wages; and labour inspection. A new Trade Union Law should curb the occurrence of wildcat strikes by strengthening provisions for dispute settlement and encouraging the social partners to boost their representative role in collective negotiations. The country is also reviewing its framework for minimum wage-fixing, so that minimum wages can better fulfil their key function – i.e. protecting traditionally disadvantaged groups of wage earners against duly low wages – and become less of the single wage policy instrument they are now.

- In **Cambodia**, the ILO will assist the Government and the social partners with the development of a new Trade Union Law based on the standards laid down in the fundamental Conventions it has ratified.[i] A revised framework for industrial relations has been considered necessary to strengthen the democratic functioning of trade unions; gradually replace the often disruptive ad-hoc grievance settlement actions with a more streamlined and forward-looking collective bargaining and dispute settlement process; and to reinforce protection against anti-union discrimination.

i) Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87) and the Right to Organize and Collective Bargaining Convention, 1949 (No. 98).

## 3. National policy responses to the crisis

### *3.1 Space for monetary and fiscal policy*

In the autumn of 2008, as global credit markets froze in the wake of the collapse of Lehman Brothers, Asian financial markets suffered a severe crisis of confidence, evidenced by plunging currencies: at different points in less than a two-month period, the Korean Won and Indonesian Rupiah fell by more than 25 per cent against the US dollar.

The rapid spread of the financial crisis through global credit markets resulted in unprecedented measures aimed at restoring liquidity and repairing the financial system, especially in those Asia-Pacific countries that are closely integrated with global financial systems. On October 24th, building on the Chiang Mai Initiative to supply funds through currency swap lines, Japan, China, the Republic of Korea and the 10 ASEAN nations set up a US$80 billion Emergency Fund, from which member countries could withdraw foreign exchange if necessitated by the crisis. This was followed on October 30th with the United States Federal Reserve announcing 'liquidity swap facilities' of US$30 billion each to the central banks of the Republic of Korea and Singapore (along with Brazil and Mexico), in order to help alleviate the shortage of US dollars in these countries which contributed to the volatility in currency markets.

More traditional forms of monetary easing have also been implemented. Many central banks in the region began lowering interest rates in October, and rates have continued a downward march (see Figure 5). While high inflation rates and currency weakness have prevented some central banks from more aggressive easing – Indonesia being a prime case in point – falling inflation expectations are likely to support further limited reductions in interest rates as needed. Yet evaporating orders for exports, decelerating output growth and the grim outlook for 2009 shifted the policy focus in November to fiscal measures aimed at increasing aggregate demand and restoring confidence. The new policy stance was strongly supported by the IMF, which suggested fiscal stimulus of 2 per cent of world GDP.[66]

The capacity of a government to undertake a fiscal stimulus depends on macroeconomic conditions such as its debt position, foreign exchange reserves and current account balance. Most Asian economies entered the crisis on a fairly solid footing, with large reserves and relatively low levels of foreign and domestic debt.[67] As the crisis began to spread to the region, reserves held up well in most economies, an expected outcome given the confidence instilled by large reserves. Several countries were adversely affected, however. The Republic of Korea's reserves shrank throughout much of 2008, falling approximately 25 per cent from the high reached in March. With the view that dwindling reserves could pose a threat to the economy's stability, this steep decline led to a downgrade in the country's credit rating from stable to negative in November.[68] Malaysia's reserves declined by 16 per cent from September through November and Indonesia's reserves also faced substantial pressure, declining by nearly 14 per cent over the same period, though the situation stabilized in December.

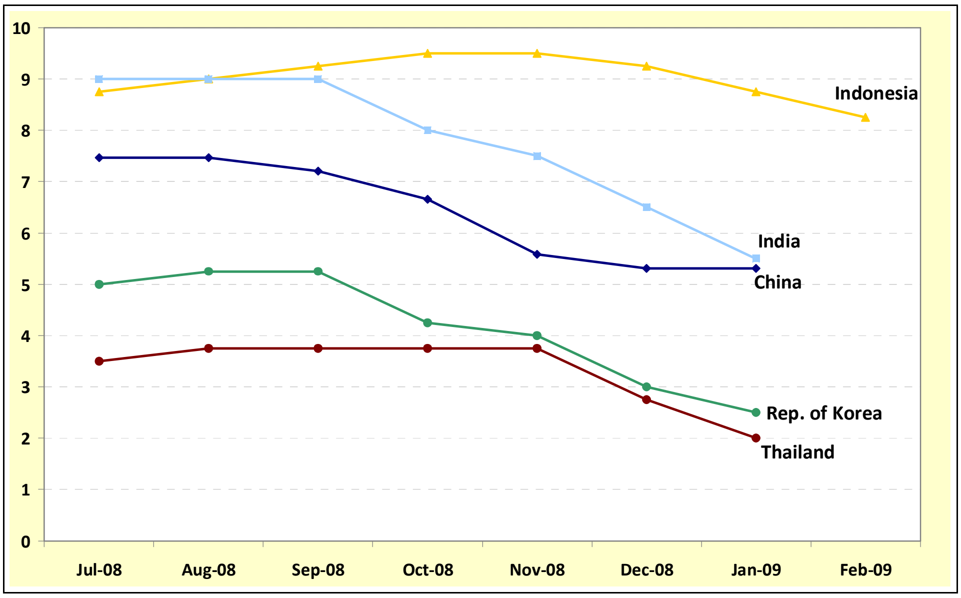
---

66 IMF: *Transcript of the a Press Briefing by Dominique Strauss-Kahn, IMF Managing Director, John Lipsky, First Deputy managing Director, Caroline Atkinson, Director of External Relations* (Washington, DC, 15 November 2008), available at www.imf.org/external/np/tr/2008/tr081115.htm.

67 In mid-2008, mainland China had one-quarter of the world's foreign exchange reserves – an astounding US$1.9 trillion or more than 50 per cent of the country's GDP. As a share of GDP, many other Asian economies entered the crisis with very sizeable reserves: Singapore (105 per cent), Malaysia (65 per cent), Thailand (40 per cent), Viet Nam (28 per cent), Republic of Korea (26 per cent), India (25 per cent), the Philippines' (22 per cent), and Indonesia (13 per cent). Source: IMF: International Financial Statistics Online (2009).

68 William Sin: "South Korea's Foreign Reserves Rise to $201.2 Billion", *Bloomberg*, 5 January 2009.

**Figure 5: Central bank interest rates (%), August 2008 - February 2009**




*Source:* Official central bank websites.

In terms of government deficits and their impacts on the overall space for expansionary policies, the picture in Asia is mixed. China, Indonesia, the Philippines and Thailand are in a strong overall fiscal position, which provides ample space for enacting stimulative macroeconomic policies and/or social transfers to support growth. India and Malaysia had higher fiscal deficits, but because of large reserves and current account surpluses, they too had fiscal space.[69] Countries should not, however, take fiscal space for granted. The crisis will lead to reduced government revenues and weakened fiscal positions. It is therefore crucial to design and implement effective policies early on.

In some developing economies in Asia, the "policy space" for fiscal measures is already very limited. For example, reserves fell sharply in Pakistan (where they stood well below 10 per cent of GDP prior to the onset of the crisis), ultimately resulting in a US$7.6 billion IMF loan to the country to shore up the financial market. In Cambodia, reliance on overseas aid to finance a quarter of its national budget has restricted the Government's ability to provide fiscal stimulus.[70]

### *3.2 Fiscal policy takes centre stage*

Since last November, several governments in the region have announced fiscal stimulus in response to the crisis (see Table 1). By December, China, India, Malaysia, the Republic of Korea and the 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 programmes, and Malaysia announced that it was working on a second package focused on structural reforms to boost productivity, competitiveness and growth.

### *Magnitude of stimulus packages*

The size of countries' fiscal stimulus packages varies greatly, ranging from the US$586 billion Chinese measure to be implemented over two years, to Viet Nam's package worth around US$1

[69] World Bank: *Weathering the Storm: Economic Policy Responses to the Financial Crisis* (November 2008).
[70] Daniel Ten Kate: "Cambodia keeps tax breaks as shortage of cash prevents stimulus", *Bloomberg*, 26 January 2009.

billion.[71] In relative terms, the Chinese measure accounts for approximately 7 per cent of the.00 country's GDP each year – a figure surpassed only by Singapore's stimulus package announced for 2009. The Philippines, Republic of Korea and Thailand are planning to spend between 3 to 4 per cent of their respective GDP to increase demand. India's two fiscal packages together represent less than 1 per cent of the country's GDP. Taking together all these measures, developing Asia as a whole is expected to spend about 3.9 per cent of its total GDP on fiscal stimulus in 2009. While this is above the 2 per cent proposed by the IMF on a global scale, when China is removed from this figure, however, the regional percentage falls to only 1.4 per cent.[72]

**Table 1: Fiscal stimulus packages**

| | Date of announcement | Amount (billion US$) | Share of 2008 GDP (%) |
|---|---|---|---|
| **China** | November 2008 | 586 | 6.9 |
| **Malaysia** | November 2008 (stimulus package)<br>January 2009 (economic restructuring) | 2.0 | 1.0 |
| **India** | December 2008 (1st stimulus package)<br>January 2009 (2nd stimulus package) | 8.1 | 0.7 |
| **Korea, Rep. of** | December 2008 | 24.4 | 3.5 |
| **Philippines** | December 2008 | 6.3 | 4.0 |
| **Indonesia** | January 2009 | 6.3 | 1.4 |
| **Singapore** | January 2009 | 13.7 | 7.8 |
| **Thailand** | January 2009 | 8.6 | 3.3 |
| **Viet Nam** | January 2009 | 1.0 | 1.1 |

*Notes:* Figures may include both monetary and fiscal measures. China: 6.9 per cent is an average over two years.
*Source:* See Annex Table 4.

However, estimates of size must be viewed with some caution as it is not always clear how much of a package is new spending versus previously planned spending. Some governments had already put in place some helpful policies and programmes that are now mitigating the crisis' adverse impact but are not necessarily considered as a part of the fiscal response. In addition, some packages include measures that are primarily the task of monetary policy not fiscal policy.

### *Composition varies greatly*

Each national policy package combines three broad measures: public spending on goods and services, fiscal stimulus aimed at firms, and fiscal incentives targeted at consumers. How these components are combined differs greatly across the region (see depending on the magnitude and type of impacts of the crisis to the economy, the degree to which the country is globally integrated, existing policies in place and other factors:

- In **China** and **Malaysia**, planned fiscal stimulus is mainly in the form of increased government spending, especially investment in infrastructure. Both countries have been affected by evaporating export demand for their goods and by possible declines in FDI

[71] Funding sources also vary from country to country. In Malaysia, the resources come entirely from savings from cuts in fuel subsidy. In China, about a third of the spending is expected to come from the central government; the rest from local governments, bank financing and state-owned enterprises. The Philippines also combines on and off budget spending. Singapore will tap its national reserves, while projecting a widened fiscal deficit in 2009. India and Viet Nam on the other hand seem to rely on deficit spending as the main source. Both deficit financing and external funding involve risks, especially when they lead to a rapid deterioration of the fiscal balance. Nevertheless, if the stimulus measures succeed and lead to a recovery, the additional incomes gained may more than offset the increase in debt (see Annex Table 4).

[72] GDP data source: IMF: World Economic Outlook Database (October 2008).

inflows. Maintaining domestic investment is critical to increase aggregate demand, especially in China (see Section 1).

- In **India**, fiscal measures place greater emphasis on supporting particular industries, including labour-intensive and export-oriented businesses. The package also includes measures aimed at ensuring liquidity in the financial system and encouraging investment in infrastructure. The reason for this approach seems to be threefold. First, the impact of the global crisis on the country has not been as sharp as in some other Asian economies because India is a relatively closed economy. Second, the impact has been primarily limited to urban industrial areas. Because India's urban areas are not closely integrated with the country's vast rural economy, the overall impact has been muted. Third, India has already put in place country-wide rural poverty alleviation programmes, which are financed outside the stimulus packages.

- In **Thailand**, demand stimulus is aimed at consumers, supporting living standards and household spending through a variety of measures. Compared with India, Thailand is a more open economy as well as being more integrated in terms of rural-urban linkages. Therefore, the impact of the crisis on its export sectors and its social fallout has spread rapidly from urban to rural areas.

- In **Singapore**, fiscal stimulus is aimed at firms and consumers, while promoting competitiveness and skills development in the medium term. The country's small domestic market combined with its heavy reliance on global demand suggests that the ability of fiscal stimulus alone to support growth and recovery may be limited.

### *3.3 Impact of the fiscal stimulus on employment*

Efforts to recover from the crisis without promoting employment and supporting household purchasing power will be ineffective, as both of these are needed to drive private consumption. Some countries have included employment as a central goal in their fiscal stimulus. In Indonesia, for example, the Government expects the stimulus package to create enough jobs to reduce unemployment (see Box 7) and protect the poor. Other examples include Singapore, where the key objectives of the stimulus include helping Singaporeans keep their jobs and supporting families, or the other hand, the Republic of Korea where the stimulus package places emphasis on overall job creation. Other countries are choosing to target employment among specific groups and/or in key sectors.

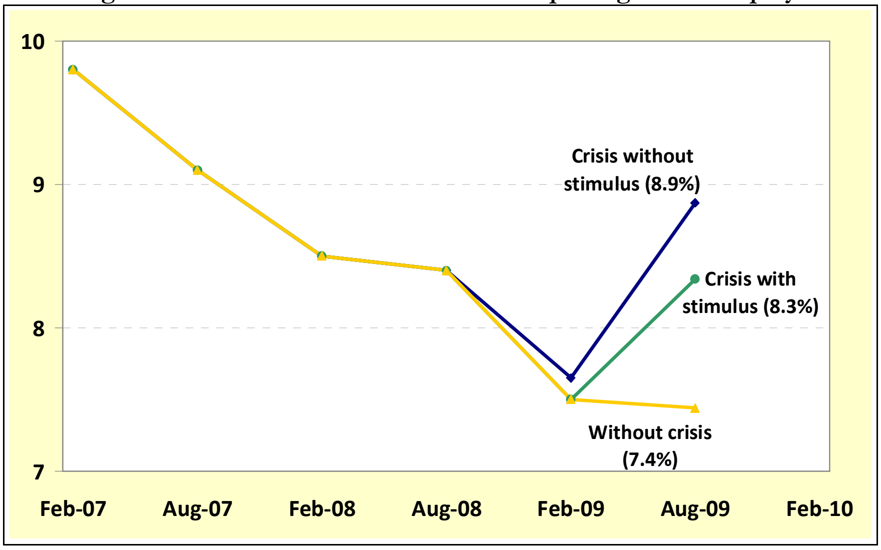
Given the importance of meeting these goals, it is critical that policy-makers undertake an assessment of the employment effects of their recovery packages. The results of such an assessment could boost public confidence that the fiscal stimulus will deliver sufficient employment to meet the goals. It would also help policy-makers to refine the stimulus packages in order to maximize their employment impact.

The impact of any national stimulus package on employment and welfare will depend not only on its size but also on a variety of other factors including: (a) the speed at which the stimulus package is implemented; (b) its composition and the choice of the policy tools to deliver the stimulus; and (c) the spread of new jobs across sectors, groups of workers and gender.

**Box 7**
**Unemployment targeting: Indonesia's stimulus package**

With the national unemployment rate reaching 8.4 per cent in the third quarter of 2008, Indonesia's unemployment rate ranks among the highest in the region. Given the threat of worsening unemployment due to the crisis, the Government has given high priority to employment creation in its fiscal stimulus. The stimulus is aimed at supporting the economy to grow at 5 per cent in 2009 and keeping the unemployment rate at 8.3 per cent. Without the fiscal stimulus, the Coordinating Ministry for Economic Affairs estimates that the unemployment rate could reach as high as 8.9 per cent. Consistent with this employment goal, the Government has set up a monitoring system and has asked registered companies to report to the Ministry on plans that may result in layoffs.

**Box Figure 1: Estimated effect of the stimulus package on unemployment**




*Sources:* Indonesia Coordinating Ministry for Economic Affairs; "More companies resort to dismissals: Ministry", *Jakarta Post*, 7 January 2009.

## *The speed and sequencing of the implementation*

The speed with which the stimulus is implemented will have significant consequences for growth and employment. To be successful, the fiscal package needs to be timely because the need for action is urgent. This calls for measures that can be implemented rapidly and that have significant employment effects almost immediately. The composition and the sequencing of measures also matter, as various components differ in how quickly they are able to create jobs, and therefore could serve different purposes in terms of cushioning the downturn and fostering recovery.[73]

In order to respond promptly, many governments have frontloaded their fiscal stimulus. In China, for example, the central Government aimed to kick off the demand stimulus by allocating RMB 100 billion (US$14.65 billion) for the latter part of 2008 for investment, primarily in infrastructure, while the rest goes to support social development and living standards. In the Republic of Korea, the Government plans to implement about two-thirds of its spending package in the first half of the new fiscal year. Spending measures can be implemented fast if they focus on already approved projects, for instance in the areas of infrastructure, housing, repair, health and education. Social transfers to protect the poor and the most vulnerable also need to be disbursed quickly. This can be done by scaling up existing schemes rather than devising new ones.

[73] For such an analysis, see: Christina Romer and Jared Bernstein: *The job impact of the American recovery and reinvestment plan* (January 2009), available at http://otrans.3cdn.net/45593e8ecbd339d074_l3m6bt1te.pdf.

Extending the scope and improving the responsiveness of automatic stabilizers such as unemployment benefits systems, and increasing other welfare payments, can be implemented quickly. Government purchases of goods and services can also be introduced rapidly as can tax reductions, but there may be some delays before the main response of spending benefits the labour market.

### *Composition and the choice of policy tools*

The impact of any particular stimulus measure on output and employment will also depend on how much of the additional expenditure is used for investment, production and consumption, and the choice of the policy tool to deliver the stimulus.

Under the current circumstances, public spending programmes (ranging from investment in infrastructure and maintenance through spending on goods and services to a temporary increase in public sector employment) tend to have a significant multiplier effect on employment, due to both direct and indirect employment effects. The direct effect is evidenced as new employment is created by a particular spending measure. The indirect effect arises partly out of increased consumption on the part of newly recruited workers which stimulate other industries, and also from spillovers of increased public spending in other sectors through intermediate inputs. Moreover, infrastructure investments provide additional benefits. They contribute to eliminating growth bottlenecks and reducing rural-urban development gaps and boost domestic consumption.

Tax reductions and income transfers, on the other hand, often have no direct employment effect. Their indirect impact depends on how firms and households react to an increase in their income. In the current environment, firms face not only a sharp fall in demand, but also unprecedented uncertainty in the future. In such a situation, they often take a 'wait-and-see' attitude with respect to their investments, and households are likely to exhibit similar behaviour in their consumption decisions.[74] In China, for example, savings deposits in banks at the end of December 2008 were up by 26 per cent from a year earlier, twice as fast as the 13 per cent annualized increase in May and up sharply from the 5.8 per cent gain in December 2007, indicating increasing caution among consumers.[75] Therefore, across-the-board incentives aimed at businesses or households (such as subsidies to firms, reduction in corporate and income tax rates) are likely to have only a moderate effect on employment.

However, if fiscal measures target credit-constrained businesses (including small firms) and consumers who are likely to spend more (for example the poor, the unemployed and low-income households), then the multiplier effect of the stimulus is likely to be higher. Measures along these lines include targeted support to firms, greater provision of unemployment benefits and the expansion of safety nets. The design of these measures will vary according to national circumstances and levels of development. In this regard, the design of effective stimulus measures in developing Asian countries with a large informal economy poses a particular challenge, because traditional tax and income policy tools tend to have limited reach to, and impact on, businesses and workers operating in the informal economy.

---

[74] Antonio Spilimbergo et al: *Fiscal Policy for the Crisis*, IMF Staff Position Note SPN/08/2008 (Washington, DC, IMF, December 2008).

[75] Andrew Batson: "Chinese growth plunges, with global aftershocks", *Wall Street Journal Asia*, 23 January 2009.

### *Spreading employment broadly*

In those countries where the fiscal stimulus focuses on investment in infrastructure and maintenance, a significant share of the new jobs will be in the construction sector. In Malaysia, public projects constitute the bulk of the package's spending, and they will include low-cost homebuilding and urban transportation upgrading.[76] China is spending over 86 per cent of its stimulus package on investments in infrastructure, including the reconstruction of earthquake-affected areas, low rent houses, public transportation, power grids and water supply.[77] The Republic of Korea, India and Indonesia have also allocated sizeable amounts on labour-intensive infrastructure projects.

Employment creation in the construction industry through investment in infrastructure projects is a positive outcome, as the financial crisis in many countries has hit the construction sector hard. 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 now likely to shrink even further 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 and, at the same time, build a foundation for sustainable growth.

The majority of the new employment opportunities in construction are likely to be taken up by unskilled and semi-skilled workers. Infrastructure works might also result in a gender specific job creation effect, as they traditionally attract mainly male workers. Table 2 shows that women tend to have a higher employment share in manufacturing than in construction. Although both sectors have been hit by job losses, many new employment opportunities are now being created in the latter with a predominantly male workforce. This example suggests that policymakers need to give 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 different categories of workers.

**Table 2: Share of women in manufacturing and construction sectors, 2006**

| | Women's share in total manufacturing employment (%) | Women's share in total construction employment (%) | Share of total employed women working in manufacturing (%) | Share of total employed women working in construction (%) |
|---|---|---|---|---|
| Korea, Rep. of | 32.6 | 9.3 | 13.7 | 1.8 |
| Malaysia | 39.5 | 7.4 | 20.6 | 1.8 |
| Thailand | 52.8 | 16.5 | 17.2 | 1.9 |

*Source:* ILO: Laborsta, 2008.

Some countries have included particular elements of infrastructure spending into their stimulus packages that are likely to have a more diverse job creation effect. China is an example, with a major project for a new high-speed passenger line from Beijing through central cities to Guangzhou. The project will require high-tech design and engineering contributions, and the line is likely to create technical, maintenance and other skilled and professional jobs in the years ahead. Malaysia will invest in better internet connections and boost broadband infrastructure to improve e-penetration, quality and speed. Although technologically advanced infrastructure

[76] Soraya Permatasari and Ranjeetha Pakiam: "Malaysia Plans $1.98 Billion Amid Slowing Expansion", *Bloomberg*, 4 November 2008; Ranjeetha Pakiam: "Malaysian Producers to Face 'Trying Times' in 2009 on Recession", *Bloomberg*, 6 December 2008.
[77] ADB: *Asia Economic Monitor 2008* (Manila, December 2008).

spending constitutes a modest part of these two countries' fiscal packages, it represents an important policy instrument to spread job creation and generate opportunities for different groups of workers.

Spreading public spending and job creation broadly could also contribute to the 'rebalancing' of some economies – a shift away from a heavy reliance on export-oriented growth to a development path based on both export growth and domestic demand. In this respect, investments in schools and hospitals and in free education, affordable health care and pension systems are essential, as they provide a basic level of economic and social security among citizens, encouraging them to consume more and boosting overall demand in the domestic economy. This will not only support the recovery of national economies, it will also help millions to overcome poverty.[78] Beyond infrastructure, increased investment in other labour-intensive social services like child care and support for the elderly population in ageing societies (such as Singapore, Thailand and China) is equally critical.

In addition, 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 their stimulus spending to training and education. In Singapore, as training costs less during an economic downturn, the country is looking at the recession as a good opportunity to retrain workers.[79]

### *3.4 Protecting the poor and the vulnerable*

Social transfers have proven effective as a policy response to the crisis. They serve the dual purpose of stimulating domestic spending while also protecting the poor and the vulnerable from the worst effects of the crisis. While the coverage of social transfer schemes varies across Asia, many countries recognize their importance in the overall policy response.

- **China**, for example, recently expanded the coverage of rural anti-poverty programmes, extending social benefits to a further 28.4 million people.[80]
- In **Indonesia**, the Government increased its poverty allocation fund to IDR 78 trillion (US$7.1 billion) in 2009, up 50 per cent from 2008.[81]
- **Thailand**'s stimulus package includes cash support for 8.13 million people, namely members of the Social Security Fund who earn less than Bt 15,000 (US$430) per month, though this notably would not cover very poor workers that are not members of the Social Security Fund. The Thai package also provides support to village economies to help them cope with the economic slump.[82]

---

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

79 The Skills Programme for Upgrading and Resilience (SPUR), a new tripartite umbrella programme supported from the fiscal package, is helping employers to retrain and develop the workforce rather than simply cut jobs. Moreover, the initiative not only helps workers to acquire new skills but also helps to boost national productivity and competitiveness over the medium- and long-term. See: Singapore Government: *Budget Speech 2009: Keeping Jobs, Building for the Future* (January 2009).

80 The programme now covers not only rural households in absolute poverty (defined as those with less that 786 yuan annual income per capita) but also low-income households (up to 1067 yuan annual income per capita). See: Chang Hee Lee: *National Policy Responses to the Financial and Economic Crisis: The Case of China* (Bangkok, ILO, 2009).

81 Yuli Tri Suwarni: "Govt prepares Rp 72t poverty fund", *Jakarta Post*, 15 December 2008.

82 Anucha Charoenpo: "Grassroots get a share of stimulus", *Bangkok Post*, 21 January 2009.

- It should be noted that **Pakistan,** lacking room for expansionary fiscal policy, also plans to increase the budget allocation for social transfer programmes.[83]

However, transfer schemes are not exclusive features of developing Asia; more developed economies are also devoting sizeable resources to social protection in their stimulus packages. An example in this regard is Singapore where the recently announced crisis response "resilience package" allocated 13 per cent of the total rescue effort to low-income households to help them cope with the increased cost of living and other difficulties they face in the downturn.[84]

Social transfer programmes vary in their design, ranging from food provisions to subsidized utilities to cash transfers. The effectiveness of these measures depends on how well they target needy households as well as on the speed of their implementation, and their capability to keep administration costs and leakages to the non-poor at the minimum level. 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 had only a modest impact on poverty.[85] Furthermore, many schemes tend to be unresponsive to changes in the beneficiaries' need for assistance.[86]

### *Building an effective social floor*

The current crisis could present an opportunity for some developing countries in the Asia and the Pacific region to improve their existing poverty reduction programmes, with the aim of gradually developing an effective social floor over time. Such a social floor could include improved access to employment opportunities, basic health care, protection and education for children, the elderly and people with disabilities, social assistance for the poor or the unemployed and other features that vary according to country needs and stages of development.

An important step in this direction is to strengthen the self-targeting component of existing programmes, a move which would encourage beneficiaries to enrol when in need and drop out when better opportunities arise in the economy elsewhere. One example of self-targeting is a scheme introduced under the Thai fiscal package which uses subsidies on low-quality public transport (for which demand falls as income increases). Another example would be labour-intensive public works programmes that can combine the benefits of income support for the poor with local development goals.

Many countries have expanded these and other programmes for social protection as part of their policy response to the crisis. Among them, India entered the crisis already having in place its National Rural Employment Guarantee (NREGA) programme, which has since been complemented by a social security scheme for workers in the informal economy and a National Health Insurance Scheme. The combination of these three major schemes could help mitigate the impact of the crisis on India's rural poor (see Box 8). NREGA in particular has the potential to act as an automatic stabilizer that varies with the economic cycle: people enrol in the scheme

---

83 Pakistan plans to increase spending on social protection from 0.3 per cent of the GDP in 2008 to 0.9 per cent of GDP in 2009 and is expected to support a larger coverage of electricity subsidies for the poor and other poverty alleviation measures through the Benazir Income Support Programme. See: "Pakistan Gets $7.6 Billion Loan from IMF", *IMF Survey Online*, 24 November 2008.

84 Singapore Government: *Budget Speech 2009: Keeping Jobs, Building for the Future* (January 2009).

85 World Bank Development Research Group: *Lessons from World Bank Research on Financial Crises*, Policy Research Working Paper No. 4779 (Washington, DC, World Bank, November 2008).

86 See: Martin Ravallion: *Bailing out the World's Poorest,* Policy Research Working Paper No. 4763 (Washington, DC, World Bank, October 2008).

when they need a job and income support during downturns and they leave it when there are better opportunities during upturns.

**Box 8**
**Emerging social floor in India**

Prior to the onset of the crisis, India extended the coverage of the *National Rural Employment Guarantee Act,* first introduced in 2005, to all rural areas. Under the NREGA, rural households are entitled to 100 days of manual work per family each year at the minimum wage for agricultural labour. The scheme is based on self-selection, as it is available to anyone who wants to participate. While the performance of NREGA varies across the country, the overall result has been positive: rural wages are rising and productive assets are being created. Furthermore, a large number of women have found employment under the scheme.

Furthermore, the Government of India is also introducing new measures to protect the poor. The *National Health Insurance Scheme* (*Rashtriya Swasthya Bima Yojana*) was formally launched on 1 October 2007 with the objective of protecting members of households living below the poverty line from major health shocks that involve hospitalization. Qualifying families are entitled to more than 700 in-patient procedures with a cost of up to 30,000 rupees (US$625) per annum for a nomination registration fee of 30 rupees (US$0.63). Pre-existing conditions are covered and there is no age limit. Coverage extends to the head of household, spouse and up to three dependent children or parents.

In December 2008 the lower house of the parliament passed the *Unorganized Workers' Social Security Bill*, which is designed to provide health, life and disability insurance, old-age pension and a group accident scheme for workers in the informal economy, including agricultural and migrant workers. The implementation and the effectiveness of the bill are likely to be great challenges. However, the scheme has indeed set in motion the much needed process of preparing welfare schemes for the 94 percent of workers in India, who are unorganized and are likely to face greater difficulty in dealing with the impact of the crisis.

*Source*: ILO: *Social protection to mitigate the impact of the financial crisis: a note on India*, ILO internal report (January 2009).

### *Increasing the scope and responsiveness of unemployment benefit systems*

Unemployment insurance is another automatic stabilizer that may cushion the impact of the economic shock on workers and help maintain aggregate demand. Evidence suggests that automatic stabilizers have a more prompt and consistent countercyclical effect than discretionary policies,[87] and that the fiscal cost of such measures automatically declines when unemployment levels fall back. Unemployment insurance would also slow down the transmission of the crisis from urban to rural areas, especially in countries where large numbers of rural migrants are at risk of losing jobs in export-oriented industries.

However, unemployment benefit schemes still play a limited role for at least two reasons. The first reason is the limited space that policy makers give to such schemes. Very few countries in the region have a proper unemployment insurance system in place – even higher income economies such as Malaysia and Singapore are no exception. The second reason has to do with the low share of wage employment that characterizes much of developing Asia. Unemployment insurance schemes normally target wage employees in the formal economy, which in low income countries represent a rather small segment of workers (see Annex Table 5). In Viet Nam for instance, where unemployment benefits were recently introduced (see Box 9), wage earning workers account for less than 22 per cent of total employment.[88]

Despite an initially limited reach, the introduction of unemployment insurance schemes would be an important step toward both protecting workers and supporting domestic demand in the crisis. Moreover, increasing the responsiveness of existing unemployment benefit systems

[87] IMF: *World Economic Outlook: Financial Stress, Downturns, and Recoveries* (Washington, DC, October 2008), p. 162.
[88] Ministry of Labour, Invalids and Social Affairs: *The result of current employment and unemployment in Viet Nam 2006* (Hanoi, Publishing House, 2007).

could improve the effectiveness of policy response to the downturn. This could be done, for example, by extending the length of, or relaxing the qualifying requirements for unemployment insurance benefits, as recently seen in Japan and a few other countries.

### *Supporting poor families to keep their children in education*

Supporting poor households to keep their children in education must be part of the policy response in low income countries. Measures to support household investment in human capital, by keeping education affordable, is a common strategy. In most countries in Asia and the Pacific, governments are committed to providing free basic education. In those countries that have not yet achieved this, lower school fees could keep children in school, while support to family health could further mitigate the potentially long-term impact of the crisis. At the same time, extending school meal programmes (food-for-education schemes) and reducing the indirect costs of education (such as transport, textbooks and uniforms) are important.[89] Scholarships targeting poor families could also assist. Thailand pursues a more ambitious strategy by allocating a significant share of its stimulus package to providing free education up to the age of 15, plus health care in rural areas. Public-private partnerships that support the education of children in poor households also have a role to play.[90]

**Box 9**
**Recent changes in unemployment insurance**

Some governments have recently introduced new unemployment benefits or have increased the scope and responsiveness of existing schemes:

- **Viet Nam** introduced its first unemployment insurance system in January 2009. However, workers will be able to benefit from it only in early 2010, as they must first pay an insurance premium for one year. Therefore, given the probability of an increase in job losses in 2009, the Government has set up a temporary "job-losses subsidies" scheme to assist laid off workers before unemployment insurance becomes fully effective.
- **India** is considering the accelerated introduction and possible expansion of the 2007 *Rajeev Gandhi Shramik Kalyan Yojana* (RGSKY) – a self-financing social security scheme for formal economy workers. The scheme provides unemployment allowance to insured persons as well as health care for the workers and their families, and support for upgrading skills to find alternative employment.
- **Thailand** has instructed provincial Social Security Offices to ensure the prompt payment of unemployment benefits to laid-off workers in accordance with the Social Security Act.
- **Japan** has eased eligibility criteria, from one year of employment to six months.
- In **Malaysia**, the Ministry of Human Resources is undertaking an actuarial study prior to the establishment of safety nets for retrenched workers.

*Sources:* Viet Nam: Ministry of Labour, Invalids, and Social Affairs website. India: ILO: *Social protection to mitigate the impact of the financial crisis: a note on India*, ILO internal report (January 2009). Thailand: Ministry of Labour website. Japan: Ministry of Health, Labour and Welfare website. Malaysia: ILO: *National Policy Responses to the Financial and Economic Crisis: The Cases of Malaysia, Singapore and Thailand* (Bangkok, 2009).

The most effective schemes are those that combine measures to lower educational costs with incentives for parents to keep the children in school. Indonesia has been implementing this kind of conditional cash transfer (CCT) since 2007 and will strengthen the scheme as part of the

[89] ILO-IPEC: *Addressing child labour in the ILO policy response to the financial crisis*, ILO-IPEC Technical Note (Geneva, ILO, June 2008).

[90] At the end of 2008, the Government of the Philippines introduced the youth education-youth employability project, or YE-YE project, in partnership with the Jolibee fast food chain. The objective of the partnership is to provide opportunities for the children of informal sector workers and child labourers to pursue a post-secondary course through tuition fee advances while obtaining practical training at the workplace. The project targets to assist some 100,000 children in the next 2 years. 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.

crisis policy response (see Box 10). Cash should normally be given to mothers, in order to maximize effectiveness. While providing the transfer to women rather than men does not affect the current aggregate demand in the economy, women's spending is likely to contribute to further future poverty reduction because it typically benefits children more in terms of their nutrition, health and schooling. There is evidence from impact evaluations that CCT schemes bring real benefits to poor households (in terms of both current and future incomes) through increased investment in child schooling and health care.[91]

**Box 10**
**Conditional cash transfer supporting child education and family health**

The Government of Indonesia will increase its budget allocation to poverty schemes including the "Hopeful family programme" (PKH), which was launched in Indonesia in January 2007. Under the PKH, each family living under the poverty line, with a monthly income less than Rp 151,997 (US$15), receives a direct cash aid of Rp 200,000 (US$19.75) per year on top of health and education aid. Transfers are conditional: expectant mothers need to undergo at least four medical check-ups during maternity, families with children need to take them to local community health centres to receive vaccinations and ensure they complete education up to junior high school. A minimum attendance requirement is also set at 85 per cent each year.

*Sources:* Yuli Tri Suwarni: "Govt prepares Rp 72t poverty fund", *Jakarta Post*, 15 December 2008;
Desy Nurhayati: "Massive poverty alleviation campaign to involve multiple ministries", *Jakarta Post*, 24 July 2007.

### *3.5 Promoting sustainable enterprises*

The current situation is unfavourable for fiscal stimulus aimed at firms to support investment, output and employment. With plummeting demand for exports and the expected decline in international trade, an export-led recovery strategy is less likely to be a viable option for the region. Moreover, employment reductions, wage moderations and low consumer sentiment, combined with sharp falls in investment by firms, have created a very uncertain business environment in developing Asia. In such an environment, subsidies and reductions in taxes might have limited impact on business decisions. Yet many countries have taken measures to encourage firms to invest and grow and save jobs.

### *Fiscal stimulus aimed at industries and enterprises*

Fiscal stimulus measures aimed at businesses vary greatly, with some countries adopting economy-wide measures while others place more emphasis on incentives for specific industries.

- In **Singapore**, for example, the Government has begun to reduce the corporate tax rate to keep the country competitive.
- **Viet Nam** has also opted for some across-the-board measures; the Government authorized the Ministry of Finance to postpone the application of, or decrease, the value added tax, corporate tax, and export and import taxes.

Other countries, however, are responding to more sector-specific challenges with the objective of limiting as much as possible capacity reductions, company layoffs and supporting domestic demand and export production.

[91] See: Martin Ravallion: *Bailing out the World's Poorest*, Policy Research Working Paper No. 4763 (Washington, DC, World Bank, October 2008); and Jishnu Das, Quy-Toan Do and Berk Ozler: *Welfare Analysis of Conditional Transfer Schemes*, World Bank Research Observer (2004).

- In the case of **India**, in addition to a broad-based reduction in VAT, helping the most severely hit sectors, namely construction, steel and export-oriented industries, is one of the major objectives of the two stimulus packages. In particular, the Government provides subsidized export credits and other incentives to labour-intensive export sectors like textile, leather and marine products.[92]
- Similarly, **Indonesia** has introduced a set of sector-specific measures, but the primary stimulus has been in the form of reduction in VAT and import duties and tax waivers for sectors that are expected to generate the strongest boost in domestic demand: labour-intensive industries, agribusinesses, import-substitution industries, export-oriented manufacturers and businesses that support infrastructure construction.[93]
- **Thailand** has taken steps to support its hotel sector, and **Cambodia**, even without sufficient resources for a comprehensive fiscal package, has helped enterprises in the textiles and clothing industries by reducing export fees and other bureaucratic costs on garments.

The employment effect of fiscal stimulus aimed at enterprises depends on the policy tools used as well as the characteristics of targeted sectors. For example, while a reduction in corporate tax rates would typically only be felt in the next fiscal year (when tax payments are due) lowering the VAT could have an immediate demand response with a beneficial indirect impact on employment. Reduction in unemployment insurance contributions and other payroll taxes[94] might also be appropriate in the short run (see Section 2).

In China's Hubei province, unemployment insurance has been used to subsidize companies that offer vocational training for in-house re-employment and reward enterprises that have paid insurance premiums for more than two consecutive years without layoffs.[95] Japan and the Republic of Korea have introduced wage subsidy schemes for particular groups and sectors, while Singapore has established an across-the-board job credit scheme to encourage businesses to preserve workplaces in the downturn.[96] These measures could reduce the costs of employment for firms without reducing workers' take home pay, thereby providing incentives for work as well as maintaining consumption. They may be appropriate when the crisis is short-lived or a particular industry and enterprises is able to recover fast. But in the longer run, they may not be fiscally sustainable. Also, their role in developing Asia is limited by the relatively small size of the 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 labour-intensive industries have a larger employment effect. 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. Government assistance to enterprises that are facing particularly difficult problems that would

---

[92] K.P. Kannan: *National Policy Responses to the Financial and Economic Crisis: The Case of India* (Bangkok, ILO, 2009).
[93] "Editorial: Putting stimulus to work", *Jakarta Post*, 8 January 2009.
[94] In Indonesia, the stimulus package includes a measure to compensate for employees' income taxes usually paid by businesses. In Indonesia, unlike many other countries, most companies subsidize the income tax liabilities of their workers, thus giving businesses more burden. See: Aditya Suharmoko: "Government unveils final stimulus plan to boost economy", *Jakarta Post*, 28 January 2009.
[95] Chang Hee Lee: *National Policy Responses to the Financial and Economic Crisis: The Case of China* (Bangkok, ILO, 2009).
[96] The Singaporean government has allocated US$3 billion on the Jobs Credit scheme, under which employers will receive wage support for each employee who is on the enterprise's payroll. The subsidy accounts for 12 per cent of the first $2,500 of the wages. It will be given in four quarterly payments, with each payment being 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 SMEs as well as companies who pay much lower income tax under Singaporean tax schedule. See: Singapore Government: *Budget Speech 2009: Keeping Jobs, Building for the Future* (January 2009).

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 levels and result from social dialogue between management and trade unions.[97] Some countries, such as India and the Philippines are taking steps in this direction through the creation of forums for sector-specific tripartite discussions (see Box 11).

**Box 11**
**Social dialogue with a focus on industries**

In December 2008, **India's** Ministry of Labour and Employment re-constituted Industrial Tripartite Committees: one each for the cotton, textile, jute, road transport, electricity generation and distribution, engineering, sugar and plantation industries. These are non-statutory committees with the objective to provide a forum for dialogue on the problems that enterprises and workers face in particular industries and to explore possible solutions.

In November 2008, the **Philippines'** Department of Labor and Employment (DOLE) organized a tripartite plus meeting on the employment impacts of the global crisis on selected industries. The output of the workshop was a set of recommendations for five sectors: automobile, construction, garments, hotel and restaurant, and the sugar industry. In January 2009, the Ministry convened another "Multi-Sectoral Conference on the Global Financial Crisis" to validate information on the employment effects of the global crisis, review actions taken by DOLE, businesses and other partners to address the employment impacts and to identify further employment measures. The conference focused on the situation of overseas workers as well as local industries including automobile, electronics, garment and handicrafts.

*Source:* K.P. Kannan: *National Policy Responses to the Financial and Economic Crisis: The Case of India* (Bangkok, ILO, 2009); Joseph T. Yap: *Impact of the Global Financial and Economic Crisis on the Philippines: A Rapid Assessment* (Bangkok, ILO, 2009).

### *Supporting small- and medium-sized enterprises*

Support for small and medium-sized enterprises has been a key component of most stimulus packages in the region partly because the crisis has impacted SMEs disproportionately more than larger companies and because small firms account for a large share of total employment in most countries. Measures aimed at small firms could cushion the social impacts of the crisis on workers and households and also help to increase demand and promote a recovery.

Fiscal stimulus measures aimed at supporting SMEs fall into three broad categories: credit (including guarantees, credit lines and preferential credit);[98] reduction in taxes; and wage subsidies. 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 towards 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. Without access to credit, they are unable to fill existing orders.

- To address the problem, the Government of the **Republic of Korea** increased financial support for SMEs by 50 trillion Won (US$37 billion), in the form of loans and credit guarantees, primarily outside the country's planned fiscal package.[99]

---

97 ILO: *Policy response to the crisis, A decent work approach in Europe and Central Asia*, 8th European Regional Meeting, (Geneva, 2008), p. 8.

98 These measures are primarily the job of monetary policy not the fiscal policy. However, their introduction as part of the fiscal packages can be justified as they complement each other, enhance synergy and increase the overall impact.

99 The Government of the Republic of Korea provides Won 1.3 trillion (US$960 million) to state-owned banks so as to lend financial assistance to SMEs. The Government has also expanded credit guarantees to SMEs by Won 6

- In **Viet Nam**, the US$1 billion stimulus package will include covering preferential interest rates on bank loans to SMEs in addition to credit guarantees.[100]
- **India** has expanded its subsidized credit guarantee scheme for SMEs, while **Indonesia** is planning to increase its budget allocation for micro-finance.[101]
- **Thailand** will provide increased loans for SMEs operating in the tourism sector.[102]
- **Several countries** have eased taxes for SMEs, whereas the Government of the Republic of Korea shoulders up to three quarters of wages, if SMEs give temporary paid leave to workers instead of laying them off.[103]

The employment impact of any stimulus package will significantly depend on how rapidly the local economy can respond to any increase in domestic demand. In this regard, policy coherence is essential. For example, the impact of major public investment programmes in infrastructure will depend on whether local construction materials are available and whether local suppliers and contractors, many of them small firms, have the necessary resources and incentives to participate. Similarly, social transfers to the poor and low-income households will generate demand for basic food and consumption good, many of which are produced by farmers and local SMEs. By helping to ensure that small enterprises can sustain their existing operations now in order to benefit from the subsequent increase in consumer demand, coherent policies could facilitate a rise in household incomes along with supporting local economic development. Targeting small firm clusters could have particularly beneficial multiplier effects.

In addition to fiscal measures aimed at firms, there are other critical policy areas for the promotion of sustainable enterprises. These include, among others, creating a regulatory and legal environment conducive to micro and small enterprises, helping small firms integrate into markets through trade and value chains, providing effective business support services catering the needs of SMEs, extending adequate social protection to workers in small firms and promoting social dialogue and democratic governance.[104] Addressing these challenges is essential, as many of the reasons why the crisis has hit SMEs hard relate to shortcomings in the above areas.

### *Investing in a green recovery*

The response measures to the current crisis can be an opportunity for change. As the UN Secretary-General recently pointed out, countries should take advantage of the renovation process that they are now urged to undertake, and address economic and environmental priorities at the same time. The Trade Unions' Washington Declaration states that "this is the

---

trillion (US$4.4 billion) through contributing to Korea Credit Guarantee Fund and the Korea Technology Guarantee Fund. An additional Won 1.5 trillion (US$1.1 billion) credit guarantee would be provided by Regional Credit Guarantee Funds. The Government has also increased financial aid through the Korea EximBank – from Won 7.5 trillion (US$5.5 billion) in 2007 to Won 8.5 trillion (US$6.2 billion) in 2009 – and has expanded insurance loans by Won 3.5 trillion (US$2.6 billion). In addition, the Government provides education and consulting support as well as business start-up services. Moreover, the Government encourages credit card companies to lower their credit card fees for small retailers. See: Republic of Korea Ministry of Finance: "Comprehensive policy measures to overcome the ongoing difficulties", Press release issued 3 November 2009.

[100] Ngoc Q. Pham: *Impact of the Global Financial and Economic Crisis on Viet Nam: A Rapid Assessment* (Bangkok, ILO, 2009).

[101] Yuli T. Suwarni: "Government prepares Rp 72t poverty fund", *Jakarta Post*, 4 January 2009.

[102] Chalida Ekvitthayavechnukul and Nophakhun Limsamarnphun: "Farmers, jobless first in line", *The Nation*, 7 January 2009.

[103] Michael Ha: "Job Creation Set as Top Priority", *The Korea Times*, 2 January 2009.

[104] For a detailed discussion, see: ILO: *The promotion of sustainable enterprises*, Report VI, International Labour Conference, 96th Session (Geneva, 2007).

time to aid economic recovery through environmentally responsible investment designed to create jobs."[105] This can be done by giving national economies the necessary stimulus against global shocks while prompting a transition toward a more sustainable development path. 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 countries which can benefit from double dividends by promoting green growth and green jobs while targeting poverty reduction. As the ILO/UNEP/ITUC/IOE *Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World* argues, the scope and the potential for green jobs both for industrialized and developing countries is vast.[106]

Some countries are already taking actual steps toward a green recovery strategy. In Japan, the Government is bolstering the green business sector as part of a strategy to boost output and create jobs. Japanese green businesses, which include renewable firms and developers of energy efficient technologies, already employ some 1.4 million people and generate sales for US$745 billion. The Government is now planning to further increase these figures, the target being a green business sector worth US$1 trillion and employing 2.2 million by 2020. Green spending is also expected to be a centre piece of the forthcoming budget in March 2009.[107]

The Republic of Korea also committed to stimulating the economy through environmentally-friendly investment (see Box 12). Malaysia recently introduced a training scheme 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.[108]

**Box 12**
**The Korean Green New Deal**

In the effort of designing timely and effective response measures to the economic downturn, the Republic of Korea is now tapping new sources of growth. Prime Minister Han Seung-Soo recently inaugurated a Green New Deal Job Creation Plan, which is intended to lead to an eco-friendly economic recovery and employment creation, ultimately allowing the country to "leap forward in this time of crisis." The Plan aims at improving the use of the nation's four major rivers, constructing dams and other water management facilities, developing green transportation networks and clean energy technologies, building 2 million green homes and creating more than a million green jobs.

The Green New Deal's ambitious targets are likely to pose some challenges, primarily regarding funding sources. According to the Government's declarations, the plan should be sustained by an investment of KRW 50 trillion (around US$40 billion) over four years. At a time when the national fiscal deficit is already expected to reach KRW 25 trillion in 2009 due to tax cuts and government spending to stimulate growth, raising the necessary resources to support green projects may be challenging. However, Korea has indeed taken an important step toward a new approach looking at the crisis response as an opportunity to discover new green sources of economic recovery.

*Source:* Prime Minister's Speech on 'Green New Deal', Republic of Korea Ministry of Finance website.

While the potential economic and environmental benefits of these types of investments are great, substantial up-front 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.

105 ITUC, TUAC and Global Unions: *Trade Union Statement to the 'G20 Crisis Summit': The Global Unions 'Washington Declaration'* (November 2008).
106 United Nations Environment Programme (UNEP): *Green Jobs: Towards Decent Work in a Sustainable, Low-Caron World* (Nairobi, 2008).
107 Japan Ministry of Environment website.
108 Prime Minister's Office of Malaysia website.

Crisis recovery, however, also carries large environmental challenges. Large-scale infrastructure projects such as railroads, highways and housing feature prominently in many fiscal packages. If not designed in environmentally friendly ways, such projects can generate wide environmental damage. Therefore, it is critical to carry out rapid environmental impact assessments before the work begins.

Some countries have directly included environmental protection as part of the current fiscal stimulus packages, along with investment in large infrastructure projects. China's package, for example, allocates RMB 350 billion (or 9 per cent of overall stimulus resources) to environmental protection and preliminary environmental assessments. These practices are critical since infrastructure investments, if properly designed, have the potential to generate large economic, employment *and* environmental benefits, particularly if the costs are offset by new developments in technology. For instance, upgrading transportation infrastructure can have a tremendous green job creation effect, while investments in housing improvements such as in better insulation and more efficient air conditioning have great potential in terms of energy conservation. Gains in energy efficiency will also turn into a savings opportunity for the poor, limiting the often disproportionate cost of their energy bills and giving them greater access to consumption alternatives characterized by more local employment. Greening urban agglomerations and slums would also represent a chance to create local jobs while providing efficient housing, as related works are likely to be carried out by local small- and medium-sized enterprises.

## Closing remarks: Some issues for consideration

The Asia and the Pacific region is not the epicentre of the global financial and economic crisis, but it has been hit hard because of its linkages with the global economy. While the region greatly benefited from open trade, financial linkages, capital flows and migration and remittances during the last decade the current crisis has revealed that close integration with global markets comes with a price: increased volatility and vulnerability to global crises.

The magnitude of the downturn in many countries in the region is astounding. China's GDP grew by 13 per cent in 2007 but scarcely grew on a seasonally adjusted basis in the fourth quarter of 2008. Over the course of 2008, South Korea's GDP tumbled from 5.8 per cent to -3.4 per cent, with Singapore's GDP contracting by 3.7 per cent in the fourth quarter versus growth of 7 per cent at the start of the year. Industrial production has fallen even more dramatically.[109] Both Japan and the newly industrialized Asian economies are likely to experience a deep recession in 2009, with their GDP projected to drop -2.6 per cent and -3.9 per cent, respectively.

Despite these negative trends entering 2009, there are some grounds for optimism in developing Asia. In aggregate, Asia's developing economies are expected to grow by 5.5 per cent in 2009 (China by 6.7 per cent, India by 5.1 per cent and the ASEAN-5 by 2.7 per cent).[110] The region has greatly improved its economic fundamentals over the last decade, and many countries now enjoy considerable room for countercyclical policy measures to address the crisis. Indeed, several countries have implemented substantial monetary and fiscal stimulus measures over the last four months. This is very important as the above forecasts are uncertain and will very much depend on the policies implemented today and in the coming months.

Recent policy measures have focused on keeping credit flowing and providing fiscal stimulus to the economy to generate domestic demand. Developing Asia as a whole is likely to spend about 3.9 per cent of its total GDP on fiscal stimulus measures in 2009. While this is above the 2 per cent proposed by the IMF on a global scale, when China is removed from this figure, the regional percentage falls to only 1.4 per cent.

Beyond the size of the packages, equally important is whether the fiscal measures focus on those areas that have the biggest multipliers and whether they enhance economies' growth potential in the medium 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, maintaining employment, income and household purchasing power should be a central goal of the fiscal stimulus measures, as they are key drivers of private consumption. The following points outline some issues for the consideration of the Manila Forum:

- *Maximizing the employment impact of stimulus packages*

Packages must be implemented quickly because the need for action is urgent. This calls for actions that can be rolled out rapidly and that have significant employment impacts almost immediately. Front-loading packages with public spending measures that focus on already approved projects (especially in the areas of infrastructure, housing, repair, health and education) tend to have immediate and strong multiplier effects on employment as well as additional benefits (eliminating growth bottlenecks, boosting consumption and reducing rural poverty and rural-urban development gaps).

---

109 See: "Asia's sinking economies: Asia's suffering", *The Economist*, 29 January 2009.
110 IMF: *World Economic Outlook Update: Global Economic Slump Challenges Policies* (January 2009).

Scaling up existing social transfers to protect the poor and most vulnerable, extending the scope and improving the responsiveness of existing unemployment benefits systems, and increasing other welfare payments to low-income families can all be implemented quickly. These measures would protect workers and their families and support domestic demand in the crisis, as the poor, the unemployed and low-income households are likely to spend more; hence the multiplier effect of the stimulus is likely to be higher.

Similarly, fiscal measures aimed at credit-constrained businesses are expected to have the strongest impact on investment, output and employment. If measures target labour-intensive industries and sectors with low import content, the impact on domestic demand and employment creation could be even greater. While reduction in corporate tax rates would typically be felt only in the next fiscal year, lowering VAT might have an immediate demand response with a beneficial indirect impact on employment. Reduction in unemployment insurance contributions and other payroll taxes might also be appropriate in the short run. Yet their role is limited in low-income countries that have a large informal economy.

- *Protecting the poor and the vulnerable*

On the other hand, social transfers have proven effective as a policy response, serving the dual purpose of stimulating domestic spending while also protecting the poor and the vulnerable from the worst effects of the crisis. Such programmes vary in their design, ranging from food provisions to cash transfers. The effectiveness of these measures depends on how well they target disadvantaged households as well as their capacity to respond to the changing needs of the beneficiaries.

The current crisis could present an opportunity for some developing countries in the region to improve their existing poverty reduction programmes, with the aim of gradually developing an effective social floor over time. An important step in this direction would be to strengthen the self-targeting component of existing programmes, which can turn them into automatic stabilizers in the vast rural economies of developing Asia. Assistance to poor families to keep their children in education is equally critical in the present crisis.

- *Supporting sustainable enterprises*

Support for small- and medium-sized enterprises has been a key component of most stimulus packages in the region partly because the crisis has impacted SMEs disproportionately more than larger companies and because small firms account for a large share of total employment in most countries. Measures aimed at small firms could cushion the social impacts of the crisis on workers and households and also help to increase demand and promote recovery.

The employment impact of any stimulus package aimed at SMEs will depend on how rapidly the local economy can respond to any increase in domestic demand. In this regard, policy coherence is essential. By helping to ensure that small enterprises can sustain their existing operations now in order to benefit from the subsequent increase in consumer demand, coherent policies could facilitate a rise in household incomes along with supporting local economic development. Targeting small firm clusters could have particularly beneficial multiplier effects.

Measures that respond not only to short-term shocks but also take into consideration the need to improve the quality of labour, the productivity of enterprises and the protection of environment could be particularly rewarding in the medium term. Some countries have turned the global economic challenge into an opportunity for sustainable growth and development.

They have used part of their fiscal stimulus package to invest in environmental protection, green businesses and related training to support both "green recovery" and long-term competitiveness. The opportunities both for a "green recovery" and related "green jobs" are vast. Sharing experience and good practices would benefit many countries in the region, developed and developing alike.

- *Involving social partners in policy design at all levels*

Social dialogue can help improve the design of the crisis response measures at enterprise, industry and national levels, 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 systems. In some countries, the impact of the global crisis has intensified existing tensions in labour-management relations, leading to strikes and disruptions in production. On the other hand, in countries with a more developed and coordinated industrial relations system (broad-based representation, strong labour institutions and long-term trust between the partners), social dialogue has served to find negotiated solutions that in some instances have become components of the broader national policy response to the crisis.

Sharing experience and building the capacity of the social partners to engage in constructive dialogue to address crisis issues at different levels have been identified by many trade unions and employers' organizations as a priority. This is also a time in many countries in the region to start developing effective mechanisms for dialogue and building mutual trust between government, workers and business – however hard it might be under the present conditions – to foster cooperation and innovation and to find negotiated solutions to the crisis.

- *Ensuring fundamental principles and rights at work are observed during the crisis*

The deep recession could add to pressures undermining workers' rights. Therefore, it is essential to ensure that social progress is not reversed. Above all, the crisis cannot be taken as an excuse for the erosion of the fundamental rights at work, namely freedom of association, the right to collective bargaining, the elimination of all forms of forced and compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.

In this context, it is very much welcomed that both the ADB and other international financial institutions including the World Bank have taken steps to ensure that their lending projects and activities are in full compliance with the ILO's core labour standards, thus confirming their views that these standards represent a floor that must be respected in all countries in all circumstances. Yet, careful monitoring of the impacts of the crisis on labour standards will be essential to preserving social progress and maintaining social stability.

- *Rebalancing development strategies*

In some countries, notably in China, the stimulus package is not only a response to the crisis but also a part of a broader, longer-term strategy to shift from export-led growth to more domestic-led growth. Spreading public spending and job creation broadly could contribute to such a 'rebalancing' of the economy. In this respect, investments in schools and hospitals and in free education, affordable health care and pension systems are essential as they provide a basic level of economic and social security among citizens, encouraging them to consume more and boosting overall demand in the domestic economy. Beyond infrastructure, increased investment in other labour-intensive social services like child care and support for the elderly population in ageing societies is equally critical. In addition, spending on research and development and investing in workers' skills can boost the longer-term productivity of the economy.

Nevertheless, shifting from an export-led model to a more balanced development path is not just about government spending. In fact, this is the easier part. A much more difficult task is to reorient production, which today is geared to export markets, towards domestic demand. This is a huge challenge, and will take time. In other words, the more difficult challenge in China and in some other countries in the region is to raise the share of household income in national income, which would require new incentives as well as structural change in the economies.[111] However, there is no one size fits all policy which can apply here or in any of the above areas.

- *International cooperation is essential*

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, pulling down the real economy.[112] Given their integration into the global economy, Asian economies are unlikely to fully recover without a broader recovery in the rest of the world. But when the recovery begins, many Asian economies may bounce back quickly, due to their policies and solid underlying fundamentals. Strong cooperation among Asian countries (for example, through the Chiang Mai Initiative and through sharing experience in policy responses) could help to confront the crisis and minimize the consequences for people, enterprises, rights and decent work. Solidarity is also critical as not every country in the region or globally has the 'fiscal space' to implement bold measures to counteract the crisis.

Vitally important is the participation of trade unions and employers' organizations as equal partners in the processes currently taking place for establishing a new regulatory framework for the global financial system, as they share the common objective that the financial sector should primarily be at the service of the real economy, not the other way around. This is the time for strong and coordinated international policy actions to support recovery and to improve the prospects for decent work for all.[113]

---

[111] IMF: *Transcript of a Briefing of Asia Press by Dominique Strauss-Kahn, IMF Managing Director, with Anoop Singh, Director of IMF Asia and Pacific Department, and Caroline Atkinson, Director of External Relations* (Washington, DC, 2 February 2009).

[112] See: "World growth grinds to virtual halt, IMF urges decisive global policy response", *IMF Survey Online*, 28 January 2009.

[113] *Statement of the Officers of the ILO Governing Body: The Global Economic Crisis*, 21 November 2008.

# Annex 1: Methodologies for constructing scenarios

*Unemployment scenarios*

- **Scenario 1:** Projects unemployment using an econometric model based on the historical relationship between GDP growth and unemployment rates in individual economies. The revised GDP forecasts released by the IMF in November 2008 were utilized, whereby economic growth in the Asian region is projected to decline to 4.8 per cent in 2009, down from 6 per cent in 2008 and 7.5 per cent in 2007.

- **Scenario 2:** Projects unemployment based on the historical relationship between economic growth and unemployment at times of economic crises. In this scenario, the negative impact on unemployment is taken in each country at the time of the largest year-on-year drop in GDP, and this relationship is used to project unemployment in 2009.

- **Scenario 3**: The unemployment rate is projected in each country as the rate in 2008 plus the largest change in the unemployment rate since 1991 in developed economies (on the basis of the country groupings in the ILO's Key Indicators of the Labour Market) and half of the largest increase in developing economies. In other words, the scenario shows what would happen if the worst impact on the unemployment rate would repeat itself simultaneously in all developed economies. The rationale for taking half of the worst impact in economies in developing economies is that the main impact of the current crisis occurred later in developing economies, and also because the crisis is not necessarily reflected in the unemployment rate in developing economies but also in the increase in informal and vulnerable employment.

*Vulnerable employment scenarios*

- **Scenario 1:** For each economy, the shares of wage employment (employees), employers, own-account workers and unpaid family workers are projected separately on the basis of an econometric model in which these shares are the dependent variables, while per-capita GDP, annual GDP growth rates, the share of national value-added in agriculture and the share of national value-added in industry are the independent variables. Regressions are estimated separately for men and women and for different regions. Elasticities of each of the dependent variables with respect to the independent variables are multiplied by the projected values for the independent variables for 2009 (plus the regression constant) to obtain the 2009 projections. Elasticities are calculated as the average over observed values during the 1991-2008 period. The projected shares of own-account workers and unpaid family workers are then added to obtain the projected share of vulnerable employment.

- **Scenario 2:** For each economy, the 2009 vulnerable employment rate is projected by multiplying the country elasticity of the vulnerable employment rate with respect to the change in GDP growth rate by the projected change in the GDP growth rate from 2008 to 2009 on the basis of the November 2008 IMF projections. The elasticity is calculated for the largest year-on-year drop in GDP since 1991.

- **Scenario 3:** The 2009 vulnerable employment rate is projected in each country on the basis of the largest increase in the vulnerable employment rate since 1991 and this is built upon a 2008 estimate calculated as the vulnerable employment rate for 2007 plus half of the largest increase in the vulnerable employment rate since 1991.

*Working poverty scenarios*

- **Scenario 1:** For each economy, the elasticities of the US$1.25 and US$2 international poverty rates to log per-capita GDP are calculated (on the basis of the average elasticity over the 1980-2006 period). Regressions are estimated separately for different poverty lines and for different regions. For the projections from 2007-2009, the elasticities are applied to projected per capita GDP figures (projected on the basis of the revised economic outlook published by the IMF in November 2008).

- **Scenario 2:** For each economy, the elasticities of the US$1.25, US$1.3125 (5 per cent higher than US$1.25), US$1.375 (10 per cent higher than US$1.25) and US$2, US$2.1 (5 per cent higher than US$2), US$2.2 (10 per cent higher than US$2) international poverty rates to log per-capita GDP are calculated (on the basis of the average elasticity over the 1980-2006 period). Regressions are estimated separately for different poverty lines and for different regions. For the projections from 2008-2009, the elasticities are applied to projected per-capita GDP figures (projected on the basis of the revised economic outlook published by the IMF in November 2008) on the basis of the 5 per cent higher poverty line in 2008 and 10 per cent higher poverty line in 2009.

- **Scenario 3:** For each economy, the elasticities of the US$1.25, US$1.375 (10 per cent higher than US$1.25), US$1.5 (20 per cent higher than US$1.25) and US$2, US$2.2 (10 per cent higher than US$2), US$2.4 (20 per cent higher than US$2) international poverty rates to log per-capita GDP are calculated (on the basis of the average elasticity over the 1980-2006 period). Regressions are estimated separately for different poverty lines and for different regions. For the projections from 2008-2009, the elasticities are applied to projected per-capita GDP figures (projected on the basis of the revised economic outlook published by the IMF in November 2008) on the basis of the 10 per cent higher poverty line in 2008 and 20 per cent higher poverty line in 2009.

# Annex 2: Statistical annex: Tables and figures

**Annex Table 1: Subregional country groups**

| Developed Economies in Asia | East Asia | South-East Asia and the Pacific | South Asia |
|---|---|---|---|
| ▪ Australia<br>▪ Japan<br>▪ New Zealand | ▪ China<br>▪ Hong Kong, China<br>▪ Korea, Democratic People's Republic of<br>▪ Korea, Republic of<br>▪ Macau, China<br>▪ Mongolia<br>▪ Taiwan, China | ▪ Brunei Darussalam<br>▪ Cambodia<br>▪ Timor Leste<br>▪ Fiji<br>▪ Indonesia<br>▪ Lao People's Democratic Republic<br>▪ Malaysia<br>▪ Myanmar<br>▪ Papua New Guinea<br>▪ Philippines<br>▪ Singapore<br>▪ Solomon Islands<br>▪ Thailand<br>▪ Viet Nam | ▪ Afghanistan<br>▪ Bangladesh<br>▪ Bhutan<br>▪ India<br>▪ Iran, Islamic Republic of<br>▪ Maldives<br>▪ Nepal<br>▪ Pakistan<br>▪ Sri Lanka |

**Annex Table 2: Unemployment scenarios, 2007-2009**

| | **Total unemployed ('000s)** | | | | | **Unemployment rate (%)** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009 S1** | **2009 S2** | **2009 S3** | **2007** | **2008** | **2009 S1** | **2009 S2** | **2009 S3** |
| Asia and the Pacific | 84,828 | 89,820 | 93,549 | 96,992 | 113,154 | 4.6 | 4.8 | 4.9 | 5.1 | 5.9 |
| Developed Economies in Asia | 3,090 | 3,161 | 3,221 | 3,313 | 3,769 | 3.9 | 4.0 | 4.1 | 4.2 | 4.8 |
| East Asia | 29,609 | 32,247 | 33,830 | 35,068 | 46,404 | 3.5 | 3.8 | 4.0 | 4.1 | 5.5 |
| South-East Asia & Pacific | 15,941 | 16,630 | 18,063 | 18,418 | 19,258 | 5.5 | 5.7 | 6.0 | 6.1 | 6.4 |
| South Asia | 36,189 | 37,782 | 38,435 | 40,194 | 43,723 | 5.5 | 5.7 | 5.6 | 5.9 | 6.4 |

*Sources:* ILO: Trends Econometric Models (December 2008); IMF: World Economic Outlook Database (October 2008); IMF: *World Economic Outlook Update: Rapidly Weakening Prospects Call for New Policy Stimulus* (November 2008).

**Annex Table 3: Vulnerable employment scenarios, 2007-2009**

| | **Vulnerable employment ('000s)** | | | | | **Share of vulnerable employment in total employment (%)** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009 S1** | **2009 S2** | **2009 S3** | **2007** | **2008** | **2009 S1** | **2009 S2** | **2009 S3** |
| Asia and the Pacific | 1,092,968 | 1,081,998 | 1,071,904 | 1,103,410 | 1,143,453 | 61.7 | 60.4 | 59.0 | 60.8 | 63.0 |
| Developed Economies in Asia | 8,127 | 7,805 | 7,636 | 7,766 | 7,816 | 10.7 | 10.3 | 10.2 | 10.3 | 10.4 |
| East Asia | 446,632 | 432,201 | 419,408 | 435,076 | 458,682 | 55.5 | 53.4 | 51.5 | 53.4 | 56.3 |
| South-East Asia & Pacific | 168,865 | 169,022 | 168,346 | 171,496 | 181,096 | 61.9 | 60.9 | 59.8 | 60.9 | 64.3 |
| South Asia | 469,344 | 472,970 | 476,514 | 489,072 | 495,859 | 76.1 | 75.0 | 73.9 | 75.8 | 76.9 |

*Sources:* ILO: Trends Econometric Models (December 2008); IMF: World Economic Outlook Database (October 2008); IMF: *World Economic Outlook Update: Rapidly Weakening Prospects Call for New Policy Stimulus* (November 2008).

**Annex Table 4: Fiscal stimulus packages**

| | Size (local currency) | Policy composition | Funding Sources |
|---|---|---|---|
| **China** | RMB 4 trillion over two years | Infrastructure investment (RMB 3.45 trillion); education and healthcare (RMB 0.04 trillion); environmental protection (RMB 0.35 trillion); industry and technology investment (RMB 0.16 trillion); disaster rebuilding; tax cuts (RMB 0.12 trillion); raise in the average incomes in rural and urban areas and increase in minimum purchase price of grain; increase in the number of pension funds for company employees. | 30% central government (RMB 1.18 trillion); 70% local government, state owned enterprises, bank financing. |
| **India** | INR 400 billion overall | Support for exporters; infrastructure and rural infrastructure investment; general tax cut; support for housing sector and SMEs. | Widened fiscal deficit (expected to reach to 5% of GDP). |
| **Indonesia** | IDR 71.3 trillion | Reduction of individual and corporate taxes (IDR 43 trillion); waived taxes and import duties on oil and gas exploration (IDR 3.5 trillion), import duties on raw materials (IDR 2.5 trillion), employee income taxes (IDR 6.5 trillion), geothermal income taxes (IDR 0.8 trillion); and subsidies for businesses, including diesel subsidies (IDR 2.8 trillion), electricity rate discount (IDR 1.4 trillion), infrastructure spending (IDR 10.2 trillion), and rural development (IDR 0.6 trillion). | Unspent 2008 budget; 2009 budget (deficit expected to reach 1.7% of GDP in 2009); additional external funding. |
| **Korea, Rep. of** | KRW 33 trillion | Infrastructure investment; assistance to small businesses; support for low-income households; enhancement of local government spending budget; tax cuts (KRW 3 trillion). | National bonds; 2009 budget. |
| **Malaysia** | 1st package: MYR 7 billion; 2nd package: Tbd | Low cost homes (MYR 1.2 billion); urban transportation upgrade (MYR 0.5 billion); other unspecified public projects; fund for private enterprises (MYR 1.5 billion). | Savings form cut in fuel price subsidies. |
| **Philippines** | PHP 300 billion | Infrastructure upgrade; school and hospital building; tax reduction and exemptions (PHP 40 billion); expansion of social protection. | Widened fiscal deficit (expected to reach 1.2% of GDP in 2009). |
| **Singapore** | SGD 20.5 billion | Support for companies to retain workers (SGD 5.8 billion); guarantee for 80% of bank loans (SGD 5.8 billion); enhance business cash flow and competitiveness (SGD 2.6 billion); support to households (SGD 2.6 billion); investment in infrastructure, education and healthcare (SGD 4.4 billion). | National reserves; widened fiscal deficit (expected to reach 6% of GDP in 2009). |
| **Thailand** | THB 300 billion | The Government has unveiled one third of the package (THB 115 billion): cost of living alleviation projects and sustenance allowance (THB 40.4 billion); free education programme (THB 19 billion); capacity building for the unemployed (THB 6.9 billion); housing and rural Infrastructure development (THB 21.3 billion); sector-specific industry promotion (THB 1.8 billion); health (THB 4.1 billion); others (THB 21.5 billion). | Mid-year supplementary 2009 budget; unused government budgets; state banks. |
| **Viet Nam** | VND 17 trillion | Upgrade rural canal and transport systems (VND 3 trillion); credit guarantees for SMEs (VND 200 billion); VAT reduction on key products such as input materials for production activities; school, hospital and road building, and irrigation works in poor districts (VND 1.5 trillion); cash transfers for poor families. | National bonds; offshore loans. |

*Sources:*
1) China: ADB: *Asia Economic Monitor 2008* (Manila, December 2008); Chang Hee Lee: *National Policy Responses to the Financial and Economic Crisis: The Case of China* (Bangkok, ILO, 2009).
2) India: K.P. Kannan: *National Policy Responses to the Financial and Economic Crisis: The Case of India* (Bangkok, ILO, 2009).
3) Indonesia: Aditya Suharmoko: "Govt unveils final stimulus plan to boost economy", *Jakarta Post,* 28 January 2009; Mustaqim Adamrah: "Stimulus to spur economy to 5%", *Jakarta Post*, 6 January 2009; Dicky Kristanto and Tyagita Silka: "Indonesia plans $9.2 bln infrastructure bill in 2009", *Forbes*, 24 December 2008.
4) Korea, Republic of: Kim Tae-gyu: "Korea Joins Fiscal Stimulus Club", *The Korea Times*, 23 December 2008.
5) Malaysia: Economist Intelligence Unit: *Malaysia Country Report* (December 2008); Soraya Permatasari and Ranjeetha Pakiam: "Malaysia Plans $1.98 Billion Amid Slowing Expansion", *Bloomberg*, 4 November 2008; Ranjeetha Pakiam: "Malaysian Producers to Face 'Trying Times' in 2009 on Recession", *Bloomberg*, 6 December 2008; Manirajan Ramasamy and Angus Whitley: "Malaysia Plans Second Stimulus to Avoid Recession", *Bloomberg*, 20 January 2009.

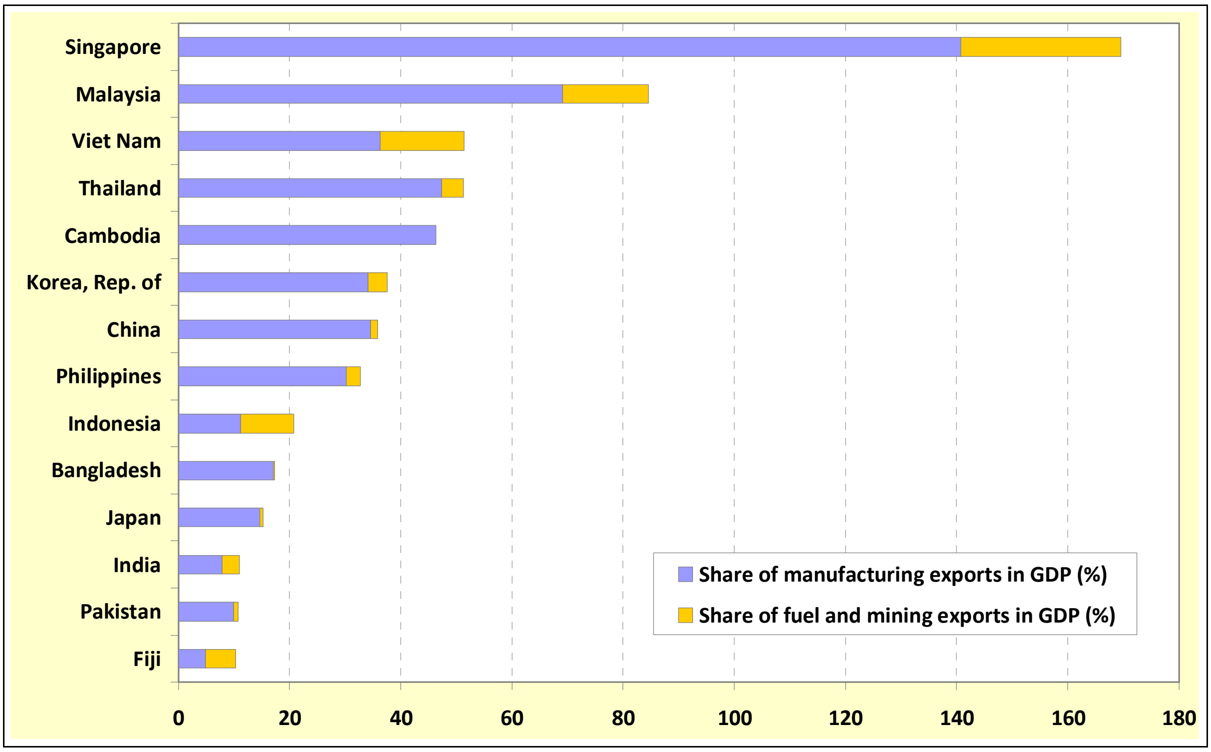
6) Philippines: Joseph T. Yap: *Impact of the Global Financial and Economic Crisis on the Philippines: A Rapid Assessment* (Bangkok, ILO, 2009); Romeo Bernardo and Marie-Christine Tang: *GlobalSource: The Last Word*, Philippines Monthly Report (December 2008).
7) Thailand: Ministry of Foreign Affairs website; Chalida Ekvitthayavechnukul and Nophakhun Limsamarnphun: "Farmers, jobless first in line", *The Nation*, 7 January 2009.
8) Viet Nam: Ngoc Le: "Government approves $1 billion stimulus package", *Viet Nam Net*, 16 January 2009.

**Annex Table 5: Unemployment insurance schemes, selected economies in Asia**

| | Date | Programme type | Share of wage and salaried workers in total employment (%) |
|---|---|---|---|
| **China** | 1986, 1993, 1999 | Local government administered social insurance | - |
| **India** | 1948 (state insurance) | Social insurance | - |
| **Indonesia** | - | - | 38.5 |
| **Japan** | 1947; 1974 (employment insurance), with 2003 and 2007 amendments | Social insurance | 86.1 |
| **Korea, Rep. of** | 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 |

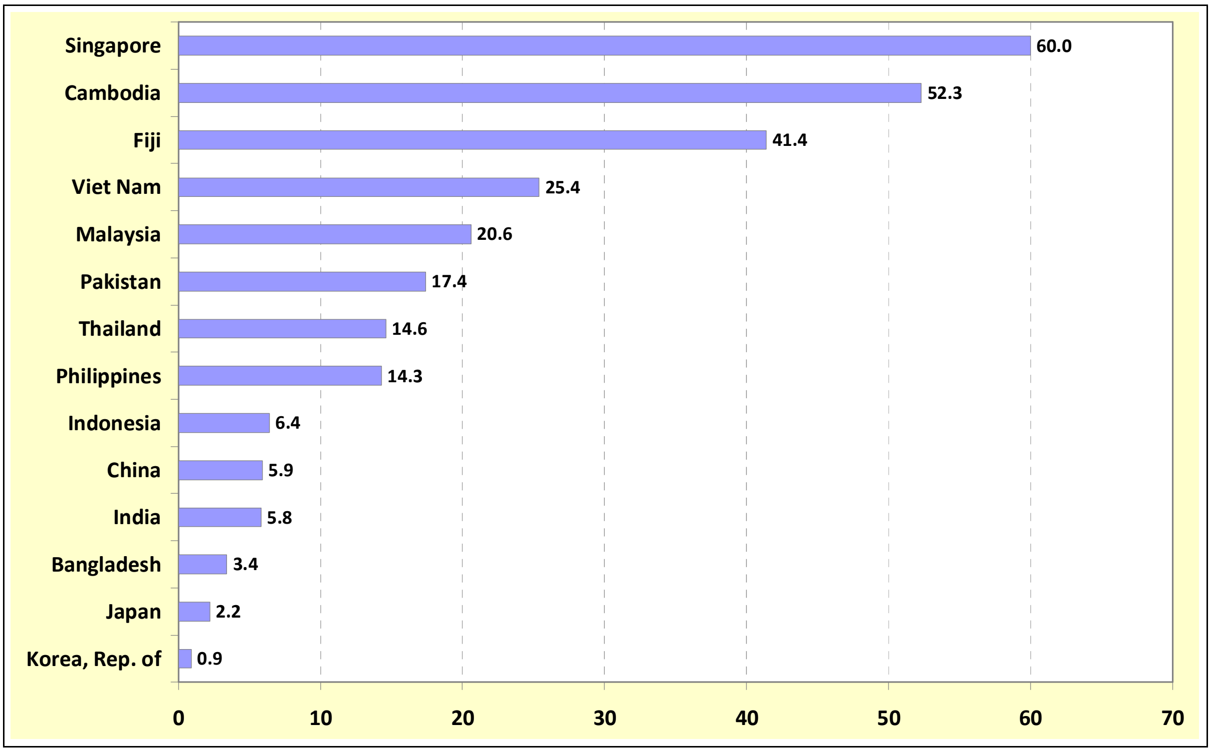
*Sources:* Ministry of Labour, Invalids and Social Affairs: *The result of current employment and unemployment in Viet Nam 2006* (Hanoi, Publishing House, 2007); ILO: *Labour and Social Trends in ASEAN 2008: Driving Competitiveness and Prosperity with Decent Work* (Bangkok, 2008); Korea Ministry of Labour: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

**Annex Figure 1: Manufacturing and fuel and mining exports as a share of GDP (%), 2007**



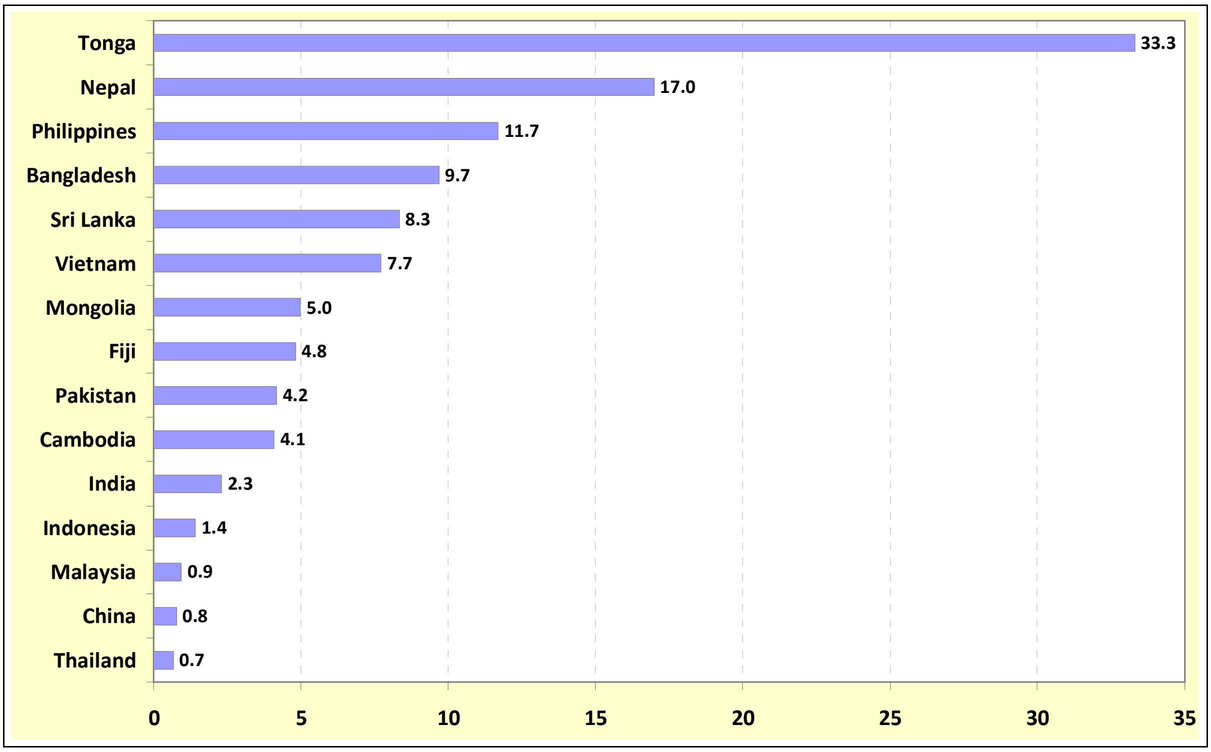

*Source:* World Trade Organization: Statistics Database, October 2008.

**Annex Figure 2: FDI inward flows as share of gross fixed capital formation (%), 2007**



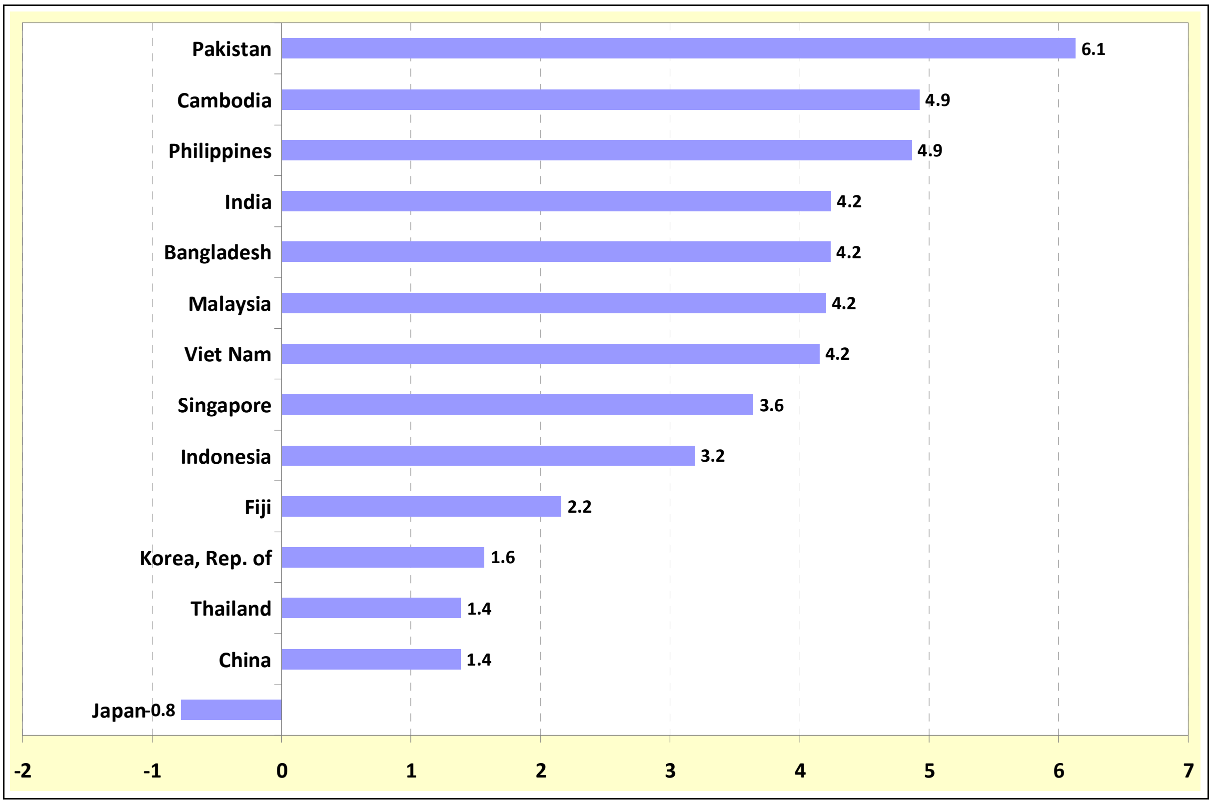

*Source:* UNCTAD: *World Investment Report 2008*.

**Annex Figure 3: Workers' remittances and compensation of employees as a share of GDP (%), 2007**




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

**Annex Figure 4: Projected labour force growth (%), 2008-2010**




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