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The global economic crisis: Labour market impacts and policies for recovery in Asia

Gyorgy Sziraczki, Phu Huynh and Steven Kapsos
June 2009

Regional Office for Asia and the Pacific

ILO Asia-Pacific Working Paper Series

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First published 2009

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The global economic crisis : labour market impacts and policies for recovery in Asia / Gyorgy Sziraczki, Phu Huynh and Steven Kapsos ; ILO Regional Office for Asia and the Pacific. - Bangkok: ILO, 2009
vii, 27 p. (ILO Asia-Pacific working paper series)

ISBN: 9789221225294 (pdf)

ILO Regional Office for Asia and the Pacific

economic recession / economic recovery / economic policy / labour market / decent work / Asia / Pacific

03.04.3

ILO Cataloguing in Publication Data

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Printed in Thailand

Preface

The International Labour Organization (ILO) is devoted to advancing opportunities for women and men to obtain decent and productive work. It aims to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue in handling work-related issues. In light of the ongoing economic and jobs crisis which has engulfed the world, the ILO's Decent Work Agenda provides the critical policy framework to confront the crisis and to support sustainable growth and development over the long-term.

This paper by Gyorgy Sziraczki, Phu Huynh and Steven Kapsos presents an assessment of the impacts of the global economic crisis on Asia's economy and labour markets and an analysis of the various policy responses in the region to mitigate the crisis impact and to facilitate a rapid and sound recovery. It was prepared for the Shanghai Forum 2009: "Economic Globalization and the Choice of Asia: Crisis, Cooperation and Development", an international economic forum hosted by Fudan University in the People's Republic of China from 10 to 12 May 2009.

In addition, the paper is based on a report developed previously for the High-level Regional Forum on Responding to the Economic Crisis in Asia and the Pacific, which took place in Manila, Philippines from 18 to 20 February 2009 and was 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. In addition, the paper also draws upon the March 2009 ILO Governing Body discussions on a decent work response to the financial and economic crisis.

This paper is part of the ILO Asia-Pacific Working Paper Series, which is intended to enhance the body of knowledge, stimulate discussion and encourage knowledge sharing and further research for the promotion of decent work in Asia and the Pacific.

Sachiko Yamamoto
Regional Director
Asia and the Pacific Region

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Abstract

The paper provides an assessment of the economic and labour market impacts of the 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.

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. Section 2 assesses the employment and social consequences of the crisis, including the falling demand for labour, downward wage pressures and increasing retrenchments. It identifies the sectors and groups most vulnerable to the crisis and analyses the impact on unemployment, vulnerable employment and working poverty.

Section 3 provides an overview of the size and scope of fiscal stimulus measures in selected countries in developing Asia. 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.

About the authors

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The responsibility for opinions expressed in articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them, or of any products, processes or geographical designations mentioned.

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 5.1 per cent in 2008, down from 8.0 per cent in 2007.¹ Asia's developing economies fared far better than the region's industrialized economies. In developing Asia, growth declined to a still robust 7.7 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 1.5 per cent – less than one-third the rate of 5.7 per cent achieved the previous year.² And growth in Japan plunged to -0.6 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 place in many of these Asian economies in the closing months of the year and in the first quarter of 2009. In China, growth slowed to 6.1 per cent in the first quarter of 2009, down sharply from 10.6 per cent in the first quarter of 2008.³ In the Republic of Korea, growth tumbled from 5.5 to -4.3 per cent, and in Singapore output plummeted from 6.7 per cent to -11.5 per cent over the same period.⁴ Meanwhile, growth in Thailand dropped from 6.0 per cent in the first quarter of 2008 to -4.3 per cent in the last quarter of the year,⁵ reflecting a contraction in external demand and heightened political instability.

By April 2009, the outlook in most economies in Asia had deteriorated significantly (see Figure). Current forecasts indicate that economic growth in the Asia region as a whole will drop to 1.4 per cent this year. Growth in developing Asia will decline to 4.8 per cent, with zero growth projected in the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand and Viet Nam). The growth projection for Asia's newly industrialized economies was revised downward and is now expected to be -5.6 per cent in 2009.

¹ IMF: World Economic Outlook Database (April 2009).

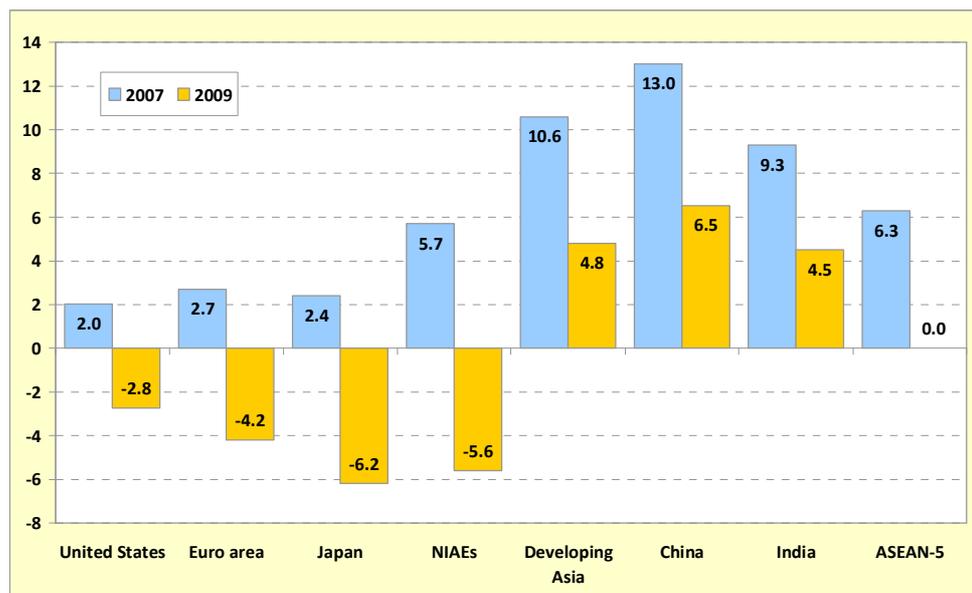
² The “developing Asia” region is an IMF regional grouping and is comprised of Bangladesh, Bhutan, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, 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).

³ China National Bureau of Statistics.

⁴ Korea National Statistical Office and Singapore Department of Statistics.

⁵ Thailand Office of the National Economic and Social Development Board.

Figure 1: Annual real GDP growth rates, 2007 and 2009 (forecast)



Notes: Newly industrialized Asian economies (NIAEs) is comprised of Hong Kong (China), the Republic of Korea, Singapore and Taiwan (China); ASEAN-5 is comprised of Indonesia, Malaysia, the Philippines and Viet Nam.
 Source: IMF: *World Economic Outlook: Crisis and Recovery* (April 2009).

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.

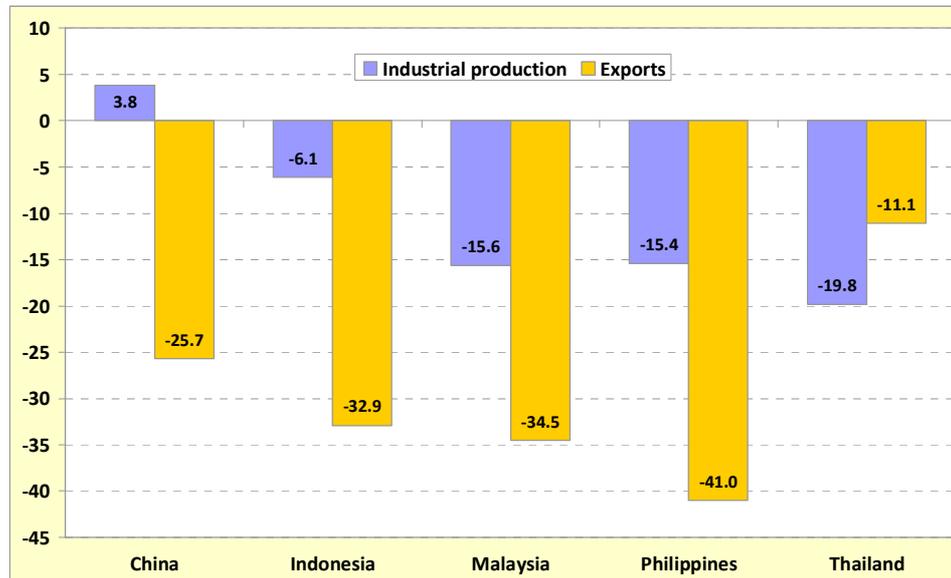
Declining demand for Asian exports and lowered industrial output

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 and the beginning of 2009, demand for Asia's exports have fallen sharply (see Figure). In February 2009, exports from China fell nearly 26 per cent compared to the previous year, while in Indonesia exports contracted about 33 per cent. Similarly, the January 2009 export data for Malaysia and the Philippines were just as astounding and indicated a year-on-year drop of more than 34 per cent and 41 per cent, respectively. 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.⁶ Total world trade volumes are expected to contract in 2009 by 11 per cent⁷ and thus this important source of growth in many Asian economies is unlikely to recover soon.

Figure 2: Industrial production and exports (% change, year-on-year), most recent month



Source: World Bank: *East Asia and Pacific Update: Battling the Forces of Global Recession* (April 2009).

Accordingly, many Asian firms are sharply cutting production, with an unmistakable rise in factory closures. Industrial production plummeted in December 2008, down more than 15 per cent versus the prior year in Malaysia and the Philippines, and dropped nearly 20 per cent in Thailand in February 2009.

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.⁸ 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.⁹ In Cambodia,

⁶ 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, ADB, 2008).

⁷ International Monetary Fund (IMF): *World Economic Outlook: Crisis and recovery* (Washington, DC, Apr. 2009).

⁸ 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.

⁹ Patricia Lui: “Emerging markets face \$180 billion investment decline”, in *Bloomberg.com*, 21 Jan. 2009.

for example, FDI in 2009 is forecast to contract to US\$390 million, about half the amount in 2008.¹⁰

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 of approximately 5 per cent.¹¹ 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.

2. Labour market and social consequences of the crisis

2.1 Falling demand for labour

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.¹² In these economies, job losses in the finance sector took place immediately. In some countries, the adverse effects on retrenched workers have been buffered by social protection schemes.

In developing Asia, the labour market was impacted later through the export channel. As overseas consumer demand fell, economies with extensive linkages to the global production chain, including Malaysia, Thailand and Viet Nam, have faced declining demand for workers in key export industries such as textiles, garments and electronics. Subsequently, the impact has spread to domestic markets as employment in other sectors, especially construction and tourism, has also been hit hard.

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 and job creation.

Reduced working times

In an attempt to avoid job losses, employers have sought alternative initiatives. In this regard, the International Organization of Employers (IOE) has issued recommendations

¹⁰ World Bank: *East Asia and Pacific Update: Battling the forces of global recession* (Washington, DC, Apr. 2009).

¹¹ Dilip Ratha and Sanket Mohapatra: *Revised outlook for remittance flows 2009-2011: Remittances expected to fall by 5 to 8 per cent in 2009*, Migration and Development Brief No. 9 (Washington, DC, World Bank, Mar. 2009).

¹² Bettina Wassener: "After lag, job losses hit banks across Asia", *International Herald Tribune*, 18 Nov. 2008.

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.¹³ In Malaysia, the industrial area of Penang 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.¹⁴ In India, the national airline carrier has even proposed a scheme for employees to take unpaid leave for up to 3-5 years.¹⁵

Downward wage pressure

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.¹⁶ Given the substantial growth slowdown taking place now, wages could remain stagnant or even fall during the crisis. 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 – exacerbates the challenge of reaching negotiated solutions to support wages during the crisis.¹⁷ However, maintaining wage levels so that purchasing power and consumer demand do not deteriorate is essential for the crisis recovery.¹⁸

Growing job losses

Despite efforts to avoid retrenchments, there has been a definite increase in job losses, particularly in terms of a reduction in wage employment. The most recent national data indicate a significant employment impact in the manufacturing sector for a number of countries. As expected, millions of workers in key export industries in the region have been retrenched. Many of these workers were employed in SMEs which supply larger firms in national, regional and global production chains.

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, have led to more than 20 million retrenched workers returning to the countryside in pursuit of rural employment.¹⁹ During the last two months of 2008, job reductions in Indonesia exceeded 40 thousand, mostly in the country's electronics and manufacturing sectors.²⁰ The January 2009 data for the Philippines indicate a rise in the unemployment rate to 7.7

¹³ International Organisation of Employers (IOE): *Staff retention mechanisms in crisis period*, IOE Note (Geneva, Jan. 2009).

¹⁴ "Penang factories take a longer break as demand slump," *The Malaysian Insider*, 19 Dec. 2008.

¹⁵ K.P. Kannan: *National policy responses to the financial and economic crisis: The case of India* (Bangkok, ILO, 2009).

¹⁶ ILO: *Global Wage Report 2008/09: Minimum wages and collective bargaining: Towards policy coherence* (Geneva, 2008).

¹⁷ Ibid.

¹⁸ Simon Wilson: "IMF and Global Labor Unions: Economic Crises Hit Workers Hardest, Labor Conference Told", *IMF Survey Online*, 16 Jan. 2009.

¹⁹ 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", in *The Wall Street Journal*, 3 Feb. 2009.

²⁰ 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", in *Xinhua*, 12 Dec. 2008.

per cent compared to 7.4 per cent in January 2008, representing 180 thousand additional unemployed workers. In addition, the number of manufacturing jobs shrunk by 120 thousand.²¹ Similarly, in Singapore, the unemployment rate in March 2009 increased to 3.2 per cent from 1.9 per cent in March 2008, with manufacturing jobs contracting by nearly 20 thousand.²²

It is critical to keep in mind that the impact on employment will lag behind the contraction in the economy, and, therefore, the extent of the fallout on job losses may still not be known as the growth outlook continues to deteriorate. Moreover, while unemployment has indeed risen to some extent, the larger adjustment to retrenchments in developing Asia has been the shift to the rural sector and to informal and vulnerable employment.

Reverse migration

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 have affected 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, seeking rural work opportunities is often the only remaining option. This process of reverse migration has taken place throughout the region, notably in India and Viet Nam, among others. 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.²³

Shift to vulnerable and informal employment

The economic crisis and corresponding decline in production has resulted 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.²⁴ 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.

²¹ Philippines National Statistics Office.

²² Singapore Ministry of Manpower.

²³ See: Ian Johnson and Andrew Batson: "China's migrants see jobless ranks soar", in *The Wall Street Journal*, 3 Feb. 2009; Simon Rabinovitch: "China's great migration wrenched back by crisis", in *International Herald Tribune*, 30 Dec. 2008.

²⁴ 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.

Recent official data corroborate this adverse shift to vulnerable employment. In Thailand, the fourth quarter 2008 figures indicate that the number of wage employees contracted by more than 100 thousand, while the number of own-account and contributing family workers increased by an astounding 800 thousand compared to the previous year.²⁵ In situations of high levels of poverty and inadequate social safety nets, workers who are cut from formal wage employment frequently are left with few alternatives except to turn to informal and vulnerable employment.

Rise in working poverty

As many workers in vulnerable employment are 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. A great deal of uncertainty remains as to how the current crisis will affect overall levels of poverty and working poverty in the Asia region. However, a tremendous impact will likely be felt by the workers and households who have risen just barely above the poverty line in recent years due to new formal employment opportunities and are now very vulnerable to falling back into poverty as a result of the crisis. More than 52 million workers are currently living just 10 per cent above the extreme US\$1.25 poverty line, while more than 140 million are living just 20 per cent above the extreme poverty line.²⁶

2.2 Groups highly vulnerable to the crisis

Youth face a bleak job market

Youth are 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 the Philippines, for example, the number of unemployed youth in January increased by 5.9 per cent to 1.4 million compared to the previous year.²⁷ Similarly, in Japan, the year-on-year increase in the number of unemployed youth in February 2009 soared by 19.5 per cent, or an increase of 80 thousand.²⁸

Moreover, in China, 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.²⁹ 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.

²⁵ Thailand National Statistical Office.

²⁶ ILO: Trends Econometric Models (May 2009).

²⁷ Philippines National Statistics Office.

²⁸ Japan Statistics Bureau.

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

Given the bleak economic outlook 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). As the crisis is likely to lead to a substantial deceleration in economic growth in these economies, labour market pressures will intensify.

Women disproportionately impacted

Furthermore, gender-disaggregated analyses indicate that women may shoulder a disproportionate share of the adverse impact of the crisis. Women are likely to be harder hit by rising unemployment than men: in 2009, the number of unemployed women is projected to rise by at least 5.7 per cent, as compared with a lower-bound increase of 4.9 per cent for men.³⁰ This, in part, reflects the large share of women workers in key sectors that are negatively impacted by the crisis. Many of the export industries (such as textiles, garments, electronics) not only are labour-intensive but also consist of a majority of women workers who have been extremely susceptible to the crisis.³¹ For example, in Thailand, female employment in manufacturing decreased by nearly 130 thousand in the fourth quarter of 2008 compared to the previous year, representing 63.2 per cent of the total job contraction in that industry.³²

Migrants among the least protected

Another vulnerable group that has been severely impacted by the global crisis are international migrant workers.³³ As global demand for workers contracts, the flow of migrant workers from developing Asia will moderate in 2009.³⁴ For labour-sending countries, this will exacerbate the challenge of mitigating job losses and generating new employment domestically. In addition, overseas migrant workers, many of whom are hired as temporary workers, are often among the first to be dismissed during an economic downturn. Many are not retained upon the expiration of their contract and are expected to return home.³⁵ 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.

The crisis and the treatment of workers, including migrants, have revealed many shortcomings in employment regulations, labour relations regimes and social protection

³⁰ ILO: Trends Econometric Models (May 2009).

³¹ See: Amelita King Dejardin and Jessica Owens: *The global economic crisis: Impacts and responses from a gender perspective*, ILO Technical Note (Geneva, ILO, 2009).

³² Thailand National Statistical Office.

³³ 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).

³⁴ 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, Nov. 2008).

³⁵ 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).

systems that deserve more attention in some countries. For these workers vulnerable to the crisis, the main concern must be upholding their rights at work and ensuring fair treatment and access to social protection.

2.3 Estimates of impact on unemployment and vulnerable employment

The ILO estimates that the number of unemployed workers in Asia and the Pacific rose by 4.4 million in 2008, to 90.3 million, or to 4.8 per cent of the labour force.³⁶ Given that the economic outlook for 2009 has deteriorated significantly, the ILO projects that the number of unemployed in Asia, compared to 2007, would increase by a range of between 9 million to 26.3 million, with a corresponding unemployment rate of between 5.0 per cent and 5.9 per cent, this year. The evolution of the more pessimistic projection would represent an unprecedented increase in unemployment in the region as a whole. Yet the potential for this scenario is more likely 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.

Furthermore, the ILO estimates that 1.09 billion workers, 60.7 per cent of all workers in the region, were classified as being in vulnerable employment in 2008.³⁷ In 2009, if the economic situation continues to deteriorate, the number of male and female workers in vulnerable employment in Asia could grow by an alarming 64 million in 2009 – an increase of nearly 6 per cent. These projections reflect the notion that economic shocks impact less on the number of jobs as opposed to the overall quality of employment. While this represents an extreme case, it is not outside the realm of possibilities given the large economic shock that is occurring.

2.4 Risk of prolonged labour market recession and social crisis

As the prospects for the global economy continue to worsen, the chances that the Asian region will fall into an economic recession have intensified. Even worse, past experience indicates that for the average economy in developing Asia, the recovery period could be longer than for the average industrial economy.³⁸ Another concern is that past economic recessions led to increases in unemployment, underemployment and shifts to informal employment that persisted beyond the economy recovery.³⁹ Thus, the region is facing the risk of a prolonged labour market recession and social crisis.

With relatively low public investments in social protection in developing Asia,⁴⁰ the social consequences for many of the region's workers and families could be dire. The shift to informal and vulnerable employment and the rise in working poverty could be long-lasting. Furthermore, during times of economic crisis, poor households often cut back spending on health in addition to pulling children from school as education becomes less

³⁶ ILO: *Trends Econometric Models* (May 2009).

³⁷ *Ibid.*

³⁸ ADB: *Asian Development Outlook 2009: Rebalancing Asia's growth* (Manila, 2009), pp. 36-37.

³⁹ ILO: *The financial and economic crisis: A Decent Work response* (Geneva, 2009).

⁴⁰ Social expenditure as a share of GDP is only 2.2 per cent in the Asia-Pacific region, which lags behind other regions in the world. See: Annex Figure 5.

affordable. Children may be sent to work in order to supplement household income.⁴¹ However, ensuring family health and enabling both girls and boys to have access to basic education must be the foundation for the future labour force to engage in decent work and help drive national growth. In sum, the crisis can not be an excuse to reverse social progress and undermine the medium- and long-term development prospects of the Asian region.

3. National policy responses to the crisis

Fiscal policy takes centre stage

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

Several countries in the region that had entered the crisis on a fairly solid footing (with large reserves and relatively low levels of foreign and domestic debt) announced fiscal stimulus packages. 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 its second package in March 2009.

Uncertainties concerning the size and timing of packages

The size of countries' fiscal stimulus packages varies greatly, ranging from the US\$586 billion Chinese measure to Viet Nam's package worth around US\$1 billion. In relative terms, the Chinese measure accounts for 12 per cent of the country's GDP (see Figure 3). Singapore and Malaysia are planning to spend between 8 and 10 per cent of their respective GDP to increase demand. On the other end of the spectrum, India's two fiscal packages together represent less than 1 per cent of the country's GDP.

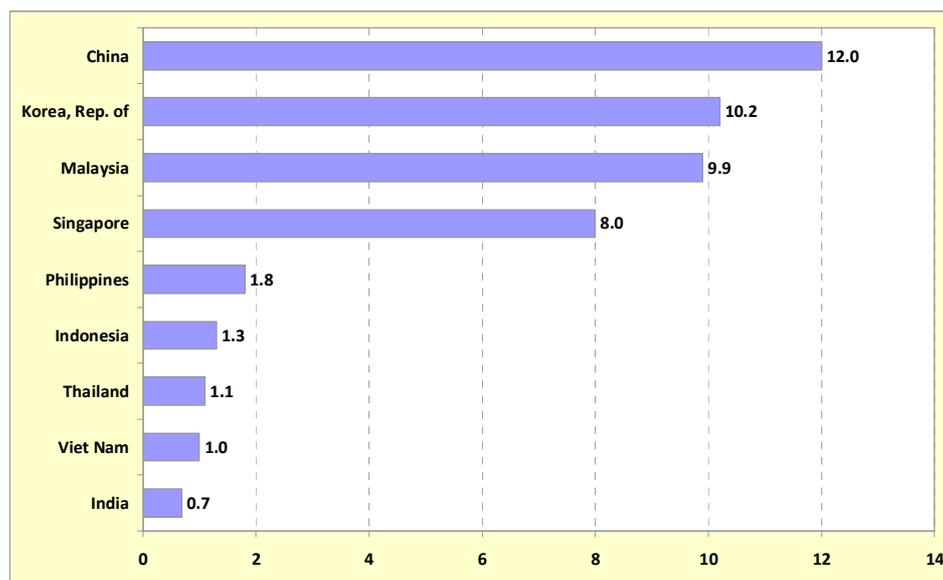
Estimates of size must be viewed with some caution, however. First, it is not always clear how much of a package is new spending versus previously planned spending. Second, packages in some countries (China and the Philippines) are financed not only from public resources but also from non-government investment. Whether the latter will be available in a timely manner remains to be seen. Third, the time-horizon in which some stimulus packages will be implemented also varies. For most countries, the timeframe is one year. But for some like China, the time frame is two years, and for Singapore and the Republic of Korea is even longer. Fourth, some packages include measures such as loan guarantees that are primarily the task of monetary policy not fiscal policy, making it difficult to

⁴¹ 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).

disentangle fiscal measures from financial efforts. Fifth, some governments had already put in place some policies and programmes that are now mitigating the crisis' adverse impact but are not considered as a part of the fiscal response.

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.

Figure 3: Fiscal stimulus packages as a share of 2009 GDP (%)



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

Sources: World Bank: *East Asia and Pacific Update: Battling the forces of global recession* (April 2009); authors' estimates.

Composition varies greatly

Across developing Asia, the composition of fiscal stimulus varies greatly. Most stimulus packages place emphasis on public spending, especially investment in infrastructure and maintenance. Public spending accounts for over 90 per cent of the stimulus package in China, over 65 per cent in Thailand and Viet Nam, between 40 and 50 per cent in the Republic of Korea, Singapore and Malaysia.⁴²

The emphasis on public spending reflects the widely shared assessment that such measures tend to have a significant multiplier effect on both output and employment, due to both direct and indirect effects. For example, the direct employment effect is evidenced as new jobs are 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. Furthermore, infrastructure investments provide

⁴² World Bank: *East Asia and Pacific Update: Battling the forces of global recession* (Apr. 2009), Appendix Tables 13-14.

additional benefits. They can 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 output and 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.⁴³ 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 growth and jobs. Moreover, in developing Asian countries with a large informal economy, tax and income policy tools tend to have limited reach to, and impact on, businesses and workers operating in the informal economy. Despite the weak multiplier effect of tax measures, cuts in corporate, sales and income taxes have been the second largest component of the stimulus measures.

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 loan facilities for credit-constrained small firms (Republic of Korea, Viet Nam, Thailand and India), increased budget allocation for microfinance (Indonesia) and various schemes to assist specific industries in several countries.

Spending on support for the poor and vulnerable has expanded in many countries. Yet, on average, these measures constitute the smallest share of the stimulus packages. Measures include unconditional and conditional cash transfers to the poor and low-income families (China, Indonesia, the Philippines, Thailand and Singapore), various schemes supporting child education and health (Indonesia and the Philippines), subsidized utilities (Thailand) and support for housing in many countries. China has also begun to tackle longer-term challenges, including closing the rural-urban divide, by extending medical coverage to 200 million uninsured through an additional package for health care reform.⁴⁴ Even countries with limited or no fiscal space have also taken measures to increase the budget allocation for social transfer programmes.⁴⁵

***Some direct measures to assist workers and employers,
but few fiscal packages have explicit job target***

Some countries have also announced explicit measures to assist workers and employers as part of their fiscal package. Examples include subsidized employment (Republic of Korea) and training programmes (Singapore) and reduction in unemployment insurance contributions and other payroll taxes to minimize job losses (Indonesia); temporary “job-loss subsidies” to assist laid-off workers (Viet Nam); skills training for retrenched

⁴³ Antonio Spilimbergo et al.: *Fiscal policy for the crisis*, IMF Staff Position Note SPN/08/2008 (Washington, DC, IMF, Dec. 2008).

⁴⁴ Lucy Hornby and Langi Chiang: “China’s \$125 billion health reform holds challenges”, in *Reuters*, 8 Apr. 2009.

⁴⁵ 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”, in *IMF Survey Online*, 24 Nov. 2008.

workers (Malaysia and Thailand); job-search assistance and financial support to laid-off migrant workers to relocate to rural areas (China); and direct public sector job creation for unemployed and graduates in many countries.

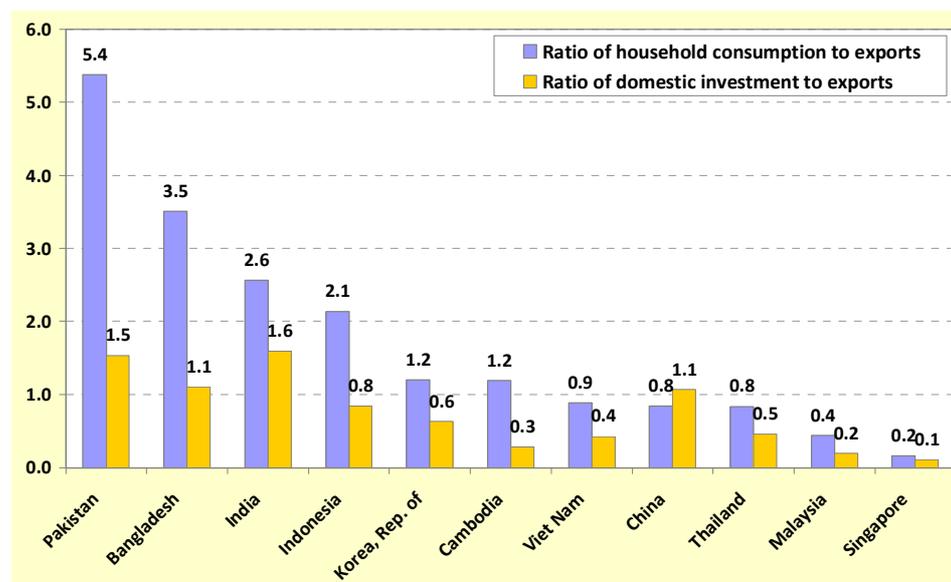
Few fiscal packages have, however, explicit targets for job creation. These include Indonesia (2.6 million) and the Republic of Korea (creation of green jobs under the “Green New Deal” initiative) and Singapore where the key objectives of the stimulus include helping Singaporeans keep their jobs and supporting families.

Prompt action but challenges abound

Box 2: 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. Box Figure 1 reveals that some countries have large domestic consumer markets: household consumption is more than five times as large as exports in Pakistan and domestic investment is 1.6 times the size of exports in India, for example. Although these countries are less impacted by the crisis through the export channel, they face the serious threat of declining private consumption and investment. On the other hand, Malaysia and Singapore stand out with very small relative consumer markets – in Singapore, domestic consumption and investment are less than one-fifth and one-tenth the size of exports, respectively. For these countries, the main challenge is that their relatively small domestic consumer and investment markets could limit the impact of fiscal stimulus measures.

Box Figure 1: Ratio of household consumption and domestic investment to exports, 2007



Source: World Bank: World Development Indicators 2008

While the policy response has been swift, a number of challenges remain. First, support for employment and social protection is clearly insufficient. Second, in some countries,⁴⁶ there have been efforts to engage the social partners, but more could be done. Third, weak administrative and institutional capacity to implement packages rapidly and effectively appears to be a major constraint in some countries. Fourth, if current packages fail to boost domestic demand (see **Error! Reference source not found.**) and protect the poor, many countries will not have resources for subsequent measures. The current crisis is already reducing government revenues and weakening fiscal positions. Therefore, there is need for transparency and impact evaluation. The results of such an assessment could boost public confidence that the fiscal stimulus measures will deliver sufficient employment and support for the poor and vulnerable. It would also help policy-makers to refine the stimulus packages in order to maximize their economic, employment and welfare impact.

4. Decent work for recovery and sustainable development

4.1 Boosting the economy through job-rich public spending programmes

A recent assessment of the estimated employment effects of different fiscal measures has revealed that “the greater the employment orientation of the measure, the stronger the stimulus for the real economy”.⁴⁷ In particular, public spending on employment-intensive areas tends to have a high multiplier. Public investment in infrastructure represents a major opportunity to generate both employment and address some development challenges.

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. Employment creation in the construction industry is a positive outcome, as the economic 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. To effectively lead to both higher employment and productivity, however, infrastructure projects need to focus on critical development bottlenecks and to meet existing domestic supply and skills.

Spreading job creation broadly

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, while the majority of the retrenched workers in export-oriented industries like electronics, textiles and garments are primarily young women. Therefore, policymakers need to give

⁴⁶ Examples include the multi-stakeholder meetings (Philippines), India (sector-specific tripartite discussions) and Singapore (tripartite agreement through the National Wages Council).

⁴⁷ ILO: *The financial and economic crisis: A Decent Work response* (Geneva, 2009), pp. 30-31.

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.

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.⁴⁸ 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.

The speed of the implementation

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. Scaling up existing social transfers to protect the poor and most vulnerable and increasing other welfare payments to low-income families can all be implemented quickly. Government purchases of goods and services can also be introduced rapidly, but there may be some delays before the impact of increased spending benefits the labour market.

4.2 Enhance social protection: target the vulnerable and protect the poor

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

Increase the role of unemployment benefit systems

Unemployment insurance is an automatic stabilizer that may cushion the impact of the economic shock on workers in the formal economy and help maintain aggregate demand. Unemployment insurance could also slow down the transmission of the crisis from urban to rural areas, especially in countries where large numbers of rural migrants have lost jobs in export-oriented industries.

⁴⁸ 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’* (Nov. 2008).

However, 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 (Annex Table 4). Another reason for the limited role of unemployment insurance system in developing Asia is that wage employees in the formal economy represent a relatively small segment of workers. In Viet Nam for instance, where unemployment benefits were recently introduced, wage-earning workers account for less than 22 per cent of total employment.⁴⁹

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 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. Another example is the use of unemployment insurance to subsidize retraining programmes in companies in China's Hubei province as an alternative to retrenchment and to reward enterprises that have paid insurance premiums for more than two consecutive years without layoffs.⁵⁰

Improve the effectiveness of traditional social transfer programmes

Traditional social transfer programmes targeting the poor and the vulnerable 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 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.⁵¹ Furthermore, many schemes tend to be unresponsive to changes in the beneficiaries' need for assistance.⁵² A promising approach to address these deficiencies is to strengthen the self-targeting component of existing programmes, a move which would encourage beneficiaries to enroll when in need and drop out when better opportunities arise in the economy elsewhere.⁵³

Moreover, evidence suggests that automatic stabilizers have a more prompt and consistent countercyclical effect than discretionary policies,⁵⁴ and that the fiscal cost of such measures automatically declines when the number of beneficiaries falls back. One such example is India's National Rural Employment Guarantee (NREGA) Scheme, which offers 100 days of work per family in rural areas at the minimum wage for agriculture and is complemented by a social security scheme in the informal economy and a National Health Insurance Scheme for unorganized workers. NREGA has the potential to act as an automatic stabilizer in rural areas, which varies with the economic

⁴⁹ Ministry of Labour, Invalids and Social Affairs: *The result of current employment and unemployment in Viet Nam 2006* (Hanoi, Publishing House, 2007).

⁵⁰ Chang Hee Lee: *National policy responses to the financial and economic crisis: The case of China* (Bangkok, ILO, 2009).

⁵¹ World Bank Development Research Group: *Lessons from World Bank research on financial crises*, Policy Research Working Paper No. 4779 (Washington, DC, World Bank, Nov. 2008).

⁵² See: Martin Ravallion: *Bailing out the World's Poorest*, Policy Research Working Paper No. 4763 (Washington, DC, World Bank, Oct. 2008).

⁵³ 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).

⁵⁴ IMF: *World Economic Outlook: Financial stress, downturns, and recoveries* (Washington, DC, Oct. 2008), p. 162.

cycle: people enrol in the scheme when they need a job and income support and they leave it when there are better opportunities during upturns. In this regard, introducing employment guarantee programmes in urban areas could provide safety for urban informal sector workers affected by the crisis.

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. 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.⁵⁵ Scholarships targeting poor families could also be effective. Thailand pursues a more ambitious strategy by allocating a significant share of its stimulus package to providing free education to children up to the age of 15, plus health care in rural areas. Public-private partnerships that support the education of children in poor households also have a role to play.⁵⁶

The most effective schemes are those that combine measures to lower educational costs with incentives for parents to keep the children in school and undertake regular medical checks. Indonesia has been implementing this kind of conditional cash transfer (CCT) since 2007 and will strengthen the scheme as part of the crisis policy response. 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.⁵⁷

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

... these measures should form the basis of establishing an effective social floor in the medium-term

⁵⁵ ILO-IPEC: *Addressing child labour in the ILO policy response to the financial crisis*, ILO-IPEC Technical Note (Geneva, ILO, June 2008).

⁵⁶ 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 Labor and Employment web site, *Weathering the crisis through well-placed programs*, 24 Dec. 2008, www.dole.gov.ph/news/details.asp?id=N000002269.

⁵⁷ See: Martin Ravallion: *Bailing out the world's poorest*, Policy Research Working Paper No. 4763 (Washington, DC, World Bank, Oct. 2008); and Jishnu Das, Quy-Toan Do and Berk Ozler: *Welfare Analysis of Conditional Transfer Schemes*, World Bank Research Observer (2004).

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. 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.

4.3 Support credit-constrained businesses and industrial adjustment

The employment effect of fiscal stimulus measures aimed at enterprises depends on the policy tools used as well as the characteristics of targeted sectors. Japan and the Republic of Korea have introduced wage subsidy schemes for particular groups and sectors, while Singapore has established an across-the-board subsidized employment scheme to encourage businesses to preserve workplaces in the downturn.⁵⁸ Other countries reduced unemployment insurance contributions and other payroll taxes.⁵⁹ All these measures could reduce the costs of employment for firms without reducing employment and 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 quickly. But in the longer run, they may not be fiscally sustainable, and 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.

Support for SMEs needs to be 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. Access to credit is particularly critical for viable small firms. The main reason for government-backed credit guarantees is that while cash injections to banks may help alleviate the overall credit crunch, lending to SMEs may not improve unless policies are directed specifically 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.

⁵⁸ 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* (Jan. 2009).

http://www.singaporebudget.gov.sg/speech_toc/index.html (accessed 23 January 2009)

⁵⁹ In Indonesia, the stimulus package includes a measure to compensate for employees' income taxes usually paid by businesses. Unlike many other countries, most companies in Indonesia subsidize the income tax liabilities of their workers, thus giving businesses more burden. See: Aditya Suharmoko: "Government unveils final stimulus plan to boost economy", in *Jakarta Post*, 28 Jan. 2009.

Government assistance to enterprises that are facing particularly difficult problems that would 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.⁶⁰

4.4 Tackle short-term challenges but keep focus on long-term priorities

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

Structural reforms to enhance productivity and labour quality

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. The Skills Programme for Upgrading and Resilience (SPUR), a new tripartite umbrella scheme supported from the fiscal package, is helping employers to retrain and develop the workforce rather than simply cut jobs and will boost national productivity and competitiveness over the medium- and long-term.⁶¹

Investing in a green recovery

The response measures to the current crisis can be an opportunity for addressing economic and environmental priorities at the same time.⁶² 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. The scope and the potential for green jobs are vast.⁶³

Some countries are already taking actual steps toward a green recovery strategy. For example, the Korean “Green New Deal” 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

⁶⁰ ILO: *Policy response to the crisis, A decent work approach in Europe and Central Asia*, 8th European Regional Meeting, (Geneva, 2008), p. 8.

⁶¹ See: Singapore Government: *Budget Speech 2009: Keeping Jobs, Building for the Future* (Jan. 2009).

⁶² This is aptly expressed by The Trade Unions’ Washington Declaration, stating that “this is the time to aid economic recovery through environmentally responsible investment designed to create jobs.” See, ITUC, TUAC and Global Unions: *Trade Union Statement to the ‘G20 Crisis Summit’: The Global Unions’ Washington Declaration’* (Nov. 2008).

⁶³ United Nations Environment Programme (UNEP): *Green Jobs: Towards decent work in a sustainable, low-carbon world* (Nairobi, 2008).

and creating more than a million green jobs. Malaysia has 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 2030.⁶⁴

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. China’s package, for example, allocates RMB 350 billion (or 9 per cent of overall stimulus resources) to environmental protection and preliminary environmental assessments.

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.

4.5 Enabling a sound policy environment

Involving social partners in policy design at all levels

Measures are best implemented through social dialogue. 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 experiences and building the capacity of the social partners to engage in constructive dialogue to address the crisis must be a priority.

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. Careful monitoring of the impacts of the crisis on labour standards will be essential to preserving social progress and maintaining social stability.

Improving policy coordination and administrative capacity to implement packages

⁶⁴ Prime Minister’s Office of Malaysia.
<http://www.pmo.gov.my/> (accessed 30 April 2009)

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 goods, 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. It is also crucial to strengthen administrative and institutional capacity as well as coordination between various agencies to ensure these programmes are effective.

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.⁶⁵ 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 strengthening the Chiang Mai Initiative and through sharing experience in policy responses) could help to confront the crisis and minimize the economic and social consequences. 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. This is the time for strong and coordinated international policy actions to support recovery and to improve the prospects for decent work for all.⁶⁶

⁶⁵ IMF: *World Economic Outlook: Crisis and recovery* (Washington, DC, Apr. 2009).

⁶⁶ *Statement of the Officers of the ILO Governing Body: The global economic crisis*, 21 Nov. 2008.

Annex: Tables and figures

Annex Table 1: Subregional country groups

Developed Economies in Asia	East Asia	South-East Asia and the Pacific	South Asia
<ul style="list-style-type: none"> ▪ Australia ▪ Japan ▪ New Zealand 	<ul style="list-style-type: none"> ▪ China ▪ Hong Kong, China ▪ Korea, Democratic People's Republic of ▪ Korea, Republic of ▪ Macau, China ▪ Mongolia ▪ Taiwan, China 	<ul style="list-style-type: none"> ▪ Brunei Darussalam ▪ Cambodia ▪ Timor Leste ▪ Fiji ▪ Indonesia ▪ Lao People's Democratic Republic ▪ Malaysia ▪ Myanmar ▪ Papua New Guinea ▪ Philippines ▪ Singapore ▪ Solomon Islands ▪ Thailand ▪ Viet Nam 	<ul style="list-style-type: none"> ▪ Afghanistan ▪ Bangladesh ▪ Bhutan ▪ India ▪ Iran, Islamic Republic of ▪ Maldives ▪ Nepal ▪ Pakistan ▪ 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	85,940	90,292	95,007	99,693	112,232	4.6	4.8	5.0	5.2	5.9
Developed Economies in Asia	3,133	3,217	3,907	3,973	4,547	3.9	4.0	4.9	5.0	5.7
East Asia	32,227	36,230	39,566	39,097	48,996	3.9	4.3	4.7	4.6	5.8
South-East Asia & Pacific	15,707	15,750	16,030	18,000	18,406	5.4	5.4	5.4	6.0	6.2
South Asia	34,873	35,094	35,503	38,623	40,283	5.3	5.2	5.1	5.6	5.8

Sources: ILO: Trends Econometric Models (May 2009).

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	1,103,897	1,091,619	1,085,839	1,116,278	1,155,923	62.2	60.7	59.6	61.3	63.5
Developed Economies in Asia	8,225	8,038	8,143	8,116	8,047	10.7	10.5	10.8	10.7	10.7
East Asia	448,105	429,806	418,523	432,806	458,061	56.0	53.5	51.8	53.5	56.6
South-East Asia & Pacific	169,257	169,914	169,652	176,455	182,298	62.1	61.1	59.9	62.3	64.4
South Asia	478,311	483,862	489,521	498,901	507,516	76.6	75.7	74.8	76.3	77.6

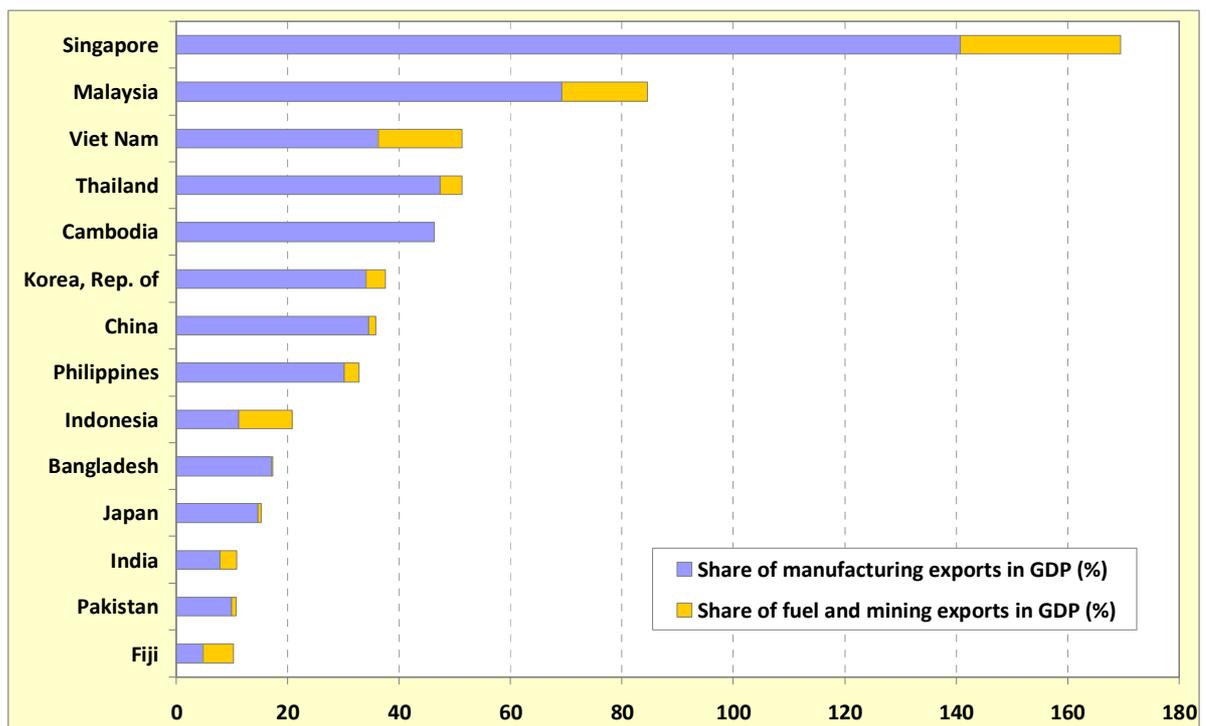
Sources: ILO: Trends Econometric Models (May 2009).

Annex Table 4: 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

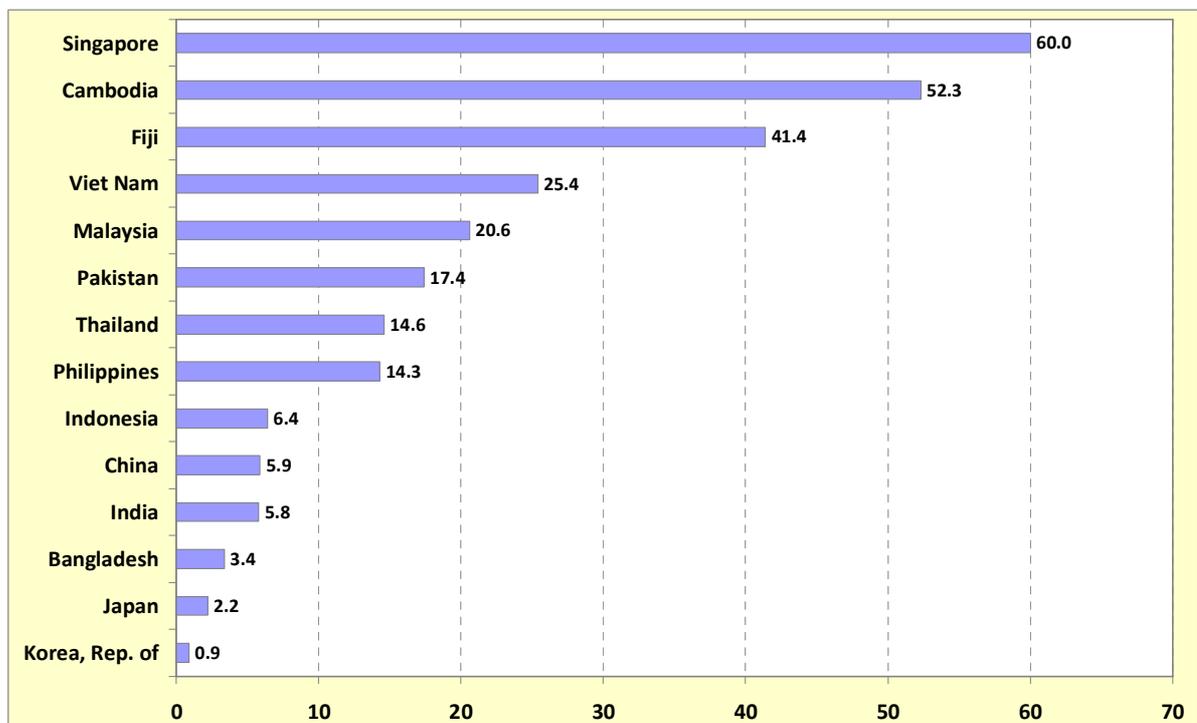
Sources: Ministry of Labour, Invalids and Social Affairs: *The result of current employment and unemployment in Viet Nam 2006* (Hanoi, Publishing House, 2007); ILO: *Labour and social trends in ASEAN 2008: Driving competitiveness and prosperity with decent work* (Bangkok, 2008); Korea Ministry of Labour: *Employment insurance law of Korea* (revised 31 Dec. 2008).

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



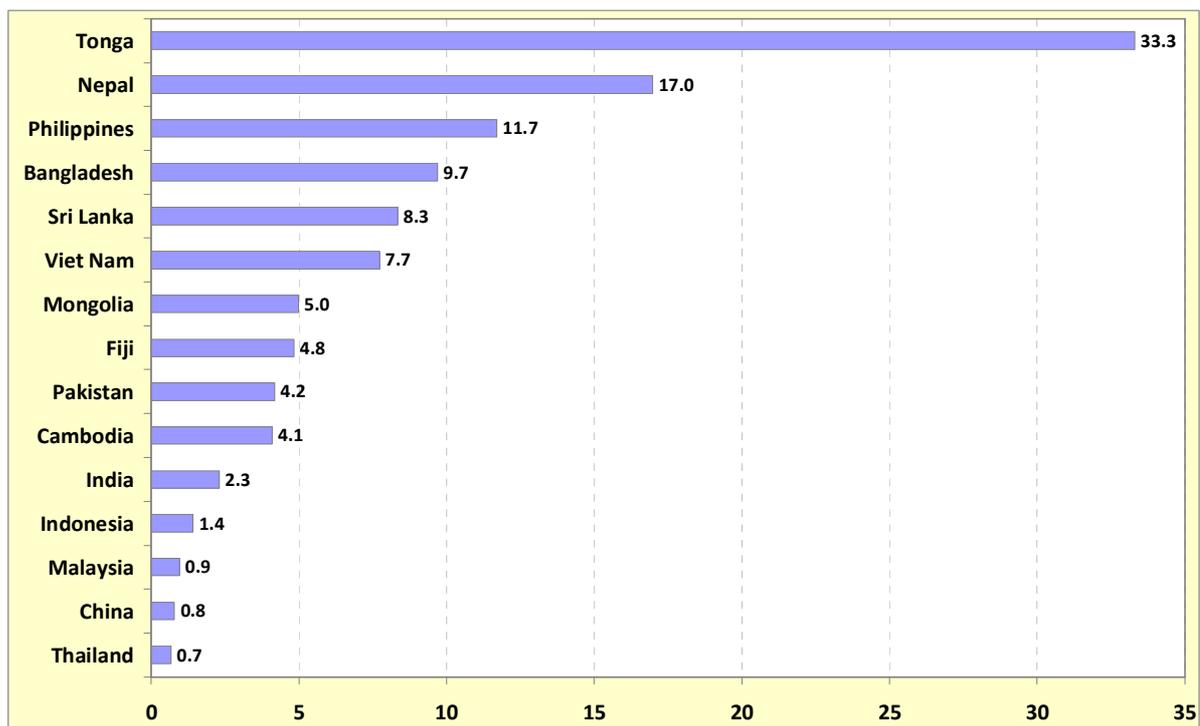
Source: World Trade Organization: Statistics Database, October 2008.

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



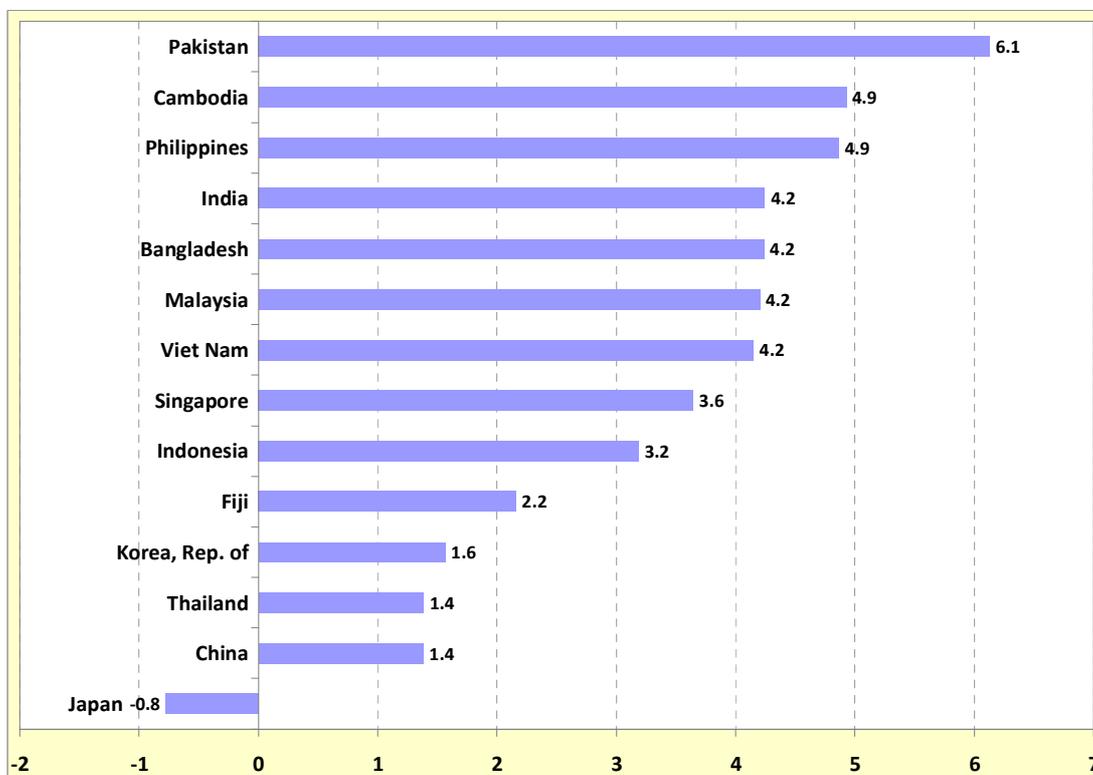
Source: UNCTAD: World Investment Report 2008.

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



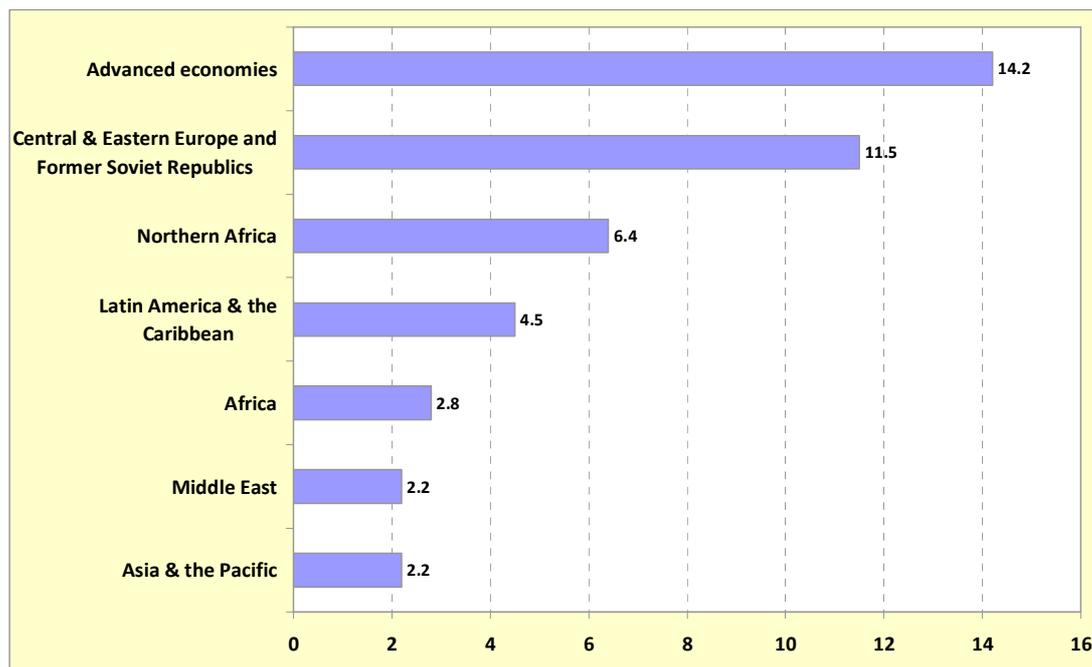
Source: World Bank: World Development Indicators, 2008.

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



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

Annex Figure 5: Social expenditure as a share of GDP (%), most recent year available



Source: ILO: *The financial and economic crisis: A Decent Work response* (Geneva, 2009), Figure 4 referencing IMF: Government Financial Statistics (2007).

The global economic crisis: Labour market impacts and policies for recovery in Asia

The paper provides an assessment of the economic and labour market impacts of the 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.

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ISBN: 978-92-2-122529-4 (web pdf)