

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

Honourable Secretary Marianito Roque,
Ministers of Labour,
Representatives of employers' and workers' organizations,
Representatives of ministries of finance and planning,
Ms Ursula Schaefer-Preuss, Vice-President of the Asian Development Bank,
Special guests,
Dear friends,

Welcome to our Manila Forum.

Let me begin by expressing our thanks to the Government of the Philippines for your warm welcome – and for the tremendous support and collaboration in hosting this Forum. Thank you very much.

This crisis, which began as a financial crisis in the United States, has quickly become a global economic crisis, and it is now clearly turning into an employment and social crisis. Its impact is deeply felt in both industrialized and developing countries in Asia.

But we need to view this crisis in a broader perspective. Even before the crisis began, Asia's rapid economic growth in recent years did not create enough decent employment opportunities for the region's massive workforce. Inequalities within and between countries were widening. Most recently, food prices were skyrocketing, pushing millions back into poverty. Moreover, developing Asia has been struggling with finding a way to move towards a more 'balanced' development path that is both economically and environmentally sustainable in the long term.

Asia-Pacific is not the epicentre of the current crisis. However, the magnitude and speed of the downturn has been astounding in this region.

While the outlook is currently weakest in the region's industrialized economies, growth in developing Asia is projected to fall to less than half the rate achieved in 2007. A major slowdown is taking place in China, where growth is projected to fall to 6.7 per cent, in India, and in most other economies in developing Asia.

The Asian region has greatly benefited from open trade, financial linkages, capital flows and migration and remittances during the last decade. However, close integration with global markets has also made Asia vulnerable to the global crisis.

First, total world trade volumes are expected to contract in 2009, the first time in more than 25 years. This will certainly affect the export-dependent countries in the Asia. We recently learned that exports from China in January recorded their largest decline in over a decade, falling nearly 18 per cent from the same month a year earlier.

Second, foreign direct investment to developing countries is forecast to fall 30 per cent and will impact enterprises and jobs. Major FDI recipients are expected to be hit hard.

Third, remittances to the region will likely moderate as migrant workers abroad are impacted. This could have a profound effect on countries such as Nepal, the Philippines, Bangladesh and Sri Lanka.

A fourth concern is domestic consumption. Consumer confidence in the Republic of Korea recently fell to its lowest level since the Asian financial crisis.

The impact on domestic investment will also be a major determinant of how economies in the region weather the crisis. This is the case particularly in economies such as India, Pakistan, Bangladesh and Indonesia where investment comprises a large share of GDP.

Workers and businesses find themselves on the front line in this crisis.

The falling demand for workers has led to reduced working hours, rising underemployment and declining wages.

Factory closures have been reported throughout the region. Small- and medium-sized firms, which employ the majority of the workers in Asia, are particularly vulnerable.

When jobs are cut in the formal sector, a majority of workers simply cannot afford to remain unemployed. Many have had to turn to the informal economy where jobs are often precarious and offer little social protection.

From India to China to Viet Nam, large numbers of internal migrants have lost their job, generating a reverse migration to the countryside in search of rural employment.

In addition, industrial disputes have been reported in Cambodia and other countries as a result of workers' growing insecurity about job losses, wages and changing working conditions.

Contract workers and international migrants have also been hit badly. These groups are often among the first to face job cuts or wage reductions during the crisis and lack the same protections as regular employees.

Young jobseekers are likely to find opportunities increasingly scarce. Already in 2008, young people in Asia were more than 3 times as likely as adults to be unemployed.

A large share of women work in export and manufacturing sectors that are being especially hard hit, making them especially vulnerable to this downturn.

Children of poor families may be pulled from school and pushed into child labour in the face of falling household incomes and rising poverty.

In January, the ILO produced projections of unemployment on the basis of GDP growth forecasts available at that time. For the Asia-Pacific region as a whole, the most favourable estimate is an increase in unemployment of 7.2 million in 2009, to 5.1 per cent.

But as projections of GDP growth have since been revised downward. The current upper-bound estimate is that unemployment could rise by more than 23 million, to 5.9 per cent of the labour force.

This crisis will lead to an increase in “vulnerable” employment – those lacking a social safety net and highly susceptible to slipping into poverty. Projections of the numbers of self-employed and unpaid family workers indicate that vulnerable employment is likely to increase by at least 21 million. However there is the possibility of an increase of more than 60 million if the situation deteriorates further.

This, in turn, will lead to an increase in the number of working poor.

Now, I turn to policy responses. What will happen in the region’s economies in the future very much depends on the policies implemented today and in the coming months.

The current crisis has prompted three sets of measures. First, governments have tried to restore confidence and repair financial markets.

Second, central banks have eased monetary policy.

Third, with decelerating growth and grim prospects for 2009, the policy focus in November shifted to fiscal stimulus measures to support aggregate demand.

There is now widespread agreement today that these serious times necessitate a strong fiscal response. The IMF has called for fiscal stimulus equalling 2 per cent of global GDP.

Several governments in the region have announced fiscal stimulus in response to the crisis. But not every country has the fiscal resources to launch such measures.

The size of the packages varies greatly. On the upper end, the Chinese and Singaporean packages account for 7 to 8 per cent of their countries’ GDP. However, country comparisons must be viewed with some caution as it is not always clear how much of a package is new spending versus previously planned spending.

In addition to size, the composition of the stimulus also matters. In this respect, maintaining employment, income and household purchasing power must be a central goal, as these are key drivers of private consumption.

First, to maximize the employment impact of fiscal measures, they need to be timely. Many governments have frontloaded their packages so that spending will occur in the near-term.

Second, under the present conditions, public spending on infrastructure and maintenance tend to have high multiplier effects on employment.

China, the Republic of Korea, India, Indonesia and Malaysia have allocated sizeable amounts to labour-intensive projects.

Third, spreading public spending and job creation broadly could contribute to the ‘rebalancing’ of economies – a shift away from over-reliance on exports to a development path based on both exports and domestic demand.

In this respect, investments in health and education and pension systems provide a basic level of economic and social security and boost overall domestic demand.

Fourth, fiscal measures targeting credit-constrained businesses and consumers who are likely to spend more are expected to have higher multiplier effects.

Fifth, assessing the employment effects of recovery packages could boost public confidence that the fiscal stimulus will deliver jobs and growth.

Social transfers serve the dual purpose of stimulating domestic spending while also protecting the poor and the vulnerable from the worst effects of the crisis. While coverage varies across Asia, many countries recognize their importance in the overall policy response.

The crisis presents an opportunity to improve existing poverty reduction programmes and gradually develop an effective social floor. India provides a good example in this regard.

Supporting poor households to keep their children in education must be part of the policy response. This is not only a moral necessity; it is an important investment for long-term competitiveness.

Very few countries in the region have a proper unemployment insurance system in place. However, these are important to both protect workers and support domestic demand.

Fiscal measures aimed at credit-constrained businesses could also boost demand. Targeting labour-intensive industries and sectors with low import content tend to have a bigger employment impact.

Support for small- and medium-sized enterprises has been a key component of most stimulus packages. These measures are needed to cushion the impacts of the crisis on workers, households and businesses.

Measures should respond not only to short-term shocks but also consider the medium-term. This could include improving the quality of labour and the productivity of enterprises.

Some countries have turned the global economic challenge into an opportunity for sustainable development. They have used part of their fiscal stimulus package to invest in environmental protection and support for both a “green recovery” and long-term competitiveness.

There are some important factors that enable an effective policy response.

First, social dialogue can help improve the design of the response measures while also providing support for implementation.

In countries with a sound industrial relations system, social dialogue has helped to find negotiated solutions that have become part of the broader national policy response. Yet, Asia must strengthen its practice of social dialogue. Building the capacity of the social partners to engage in constructive dialogue is essential.

Second, it is important to ensure that social progress is not reversed. Above all, the crisis cannot be taken as an excuse for the erosion of core labour standards.

Third, Asia must help to construct a coordinated and coherent regional approach in partnership with institutions like the ADB and ASEAN. This dynamic region can also take a leading role in developing a new global economic architecture with a common action plan.

The ILO with its tripartite structure has a special responsibility to promote an integrated approach to the crisis – to protect people, support productive enterprises and safeguard jobs. This is part of our Decent Work Agenda. We are partners in charting a way towards a sustainable recovery.

I look forward to a productive discussion.

Thank you.