Part 1: Asian Economic Crisis: An Overview of Economic and Labour Market Developments

1. Brief Overview of the Crisis

The financial crisis which has hit several Asian economies began in June, 1997 when the Thai baht was forced to float and a dramatic depreciation followed. Subsequently, Hong Kong, China; Indonesia; Korea; and Malaysia experienced significant currency pressures. Within one year, not only economies in Asia, but also in North America and Europe were adversely affected by the crisis.

Table 1 presents the annual real Gross Domestic Product (GDP) growth rates for the 21 APEC economies for the 1994–98 period and, where available, forecasts for 1999. Since the beginning of the crisis, GDP growth rates have been falling in almost all APEC economies. In particular, Hong Kong, China; Indonesia; Japan; Korea; Malaysia; New Zealand; Russia; and Thailand experienced negative growth in 1998 (see Figure 1). In 1999, it is expected that GDP growth rates will improve for most economies affected by the crisis. The last column of Table 1 presents the forecasts of GDP growth rates for some member economies in 1999 by the *Asian Development Bank*, which indicates that of the economies experiencing negative growth in 1998 only three of them will have negative or no growth in 1999. They are Hong Kong, China; Indonesia; and Thailand. The improvement expected in Korea and Malaysia is particularly impressive.

Table 1: Real GDP rates of growth for APEC economies, 1994–99

	1994	1995	1996	1997	1998	1999*
Australia	5.14	4.24	3.61	3.62	5.10	n.a.
Brunei	1.80	2.00	3.50	4.00	1.80	n.a.
Canada	4.73	2.61	1.21	3.80	2.99	n.a.
Chile	5.71	10.63	7.37	7.06	3.30	n.a.
China	12.60	10.50	9.60	8.80	7.80	7.0
Hong Kong, China	5.40	3.89	4.50	5.28	-5.10	-0.5
Indonesia	7.54	8.22	7.98	4.65	-13.70	0.0
Japan	0.64	1.47	5.05	1.43	-2.82	n.a.
Korea	8.58	8.94	7.06	5.51	-5.50	2.0
Malaysia	9.30	9.36	8.60	7.70	-6.77	0.7
Mexico	4.42	-6.17	5.18	6.98	4.90	n.a.
New Zealand	5.96	4.00	3.12	2.11	-0.32	n.a.
Papua New Guinea	4.44	-2.92	3.47	-5.36	3.75	n.a.
Peru	13.10	7.34	2.49	7.16	1.53	n.a.
Philippines	4.39	4.68	5.85	5.17	-0.48	2.4
Russia	-12.60	-4.10	-3.50	0.80	-4.82	n.a.
Singapore	10.52	8.92	7.52	7.99	1.49	1.0
Chinese Taipei	6.54	6.03	5.67	6.76	4.90	4.9
Thailand	8.61	8.83	5.52	-0.43	-8.00	0.0
United States	3.46	2.28	3.45	3.93	3.88	n.a.
Viet Nam	8.84	9.54	9.34	8.80	3.50	3.7

Sources: All except Brunei; IMF World Economic Outlook database, April 1999; Brunei: APEC homepage - Member Economies.

*The 1999 figures are from the *Asian Development Outlook*, 1999.

Figure 1: APEC economies: GDP growth rates in 1998

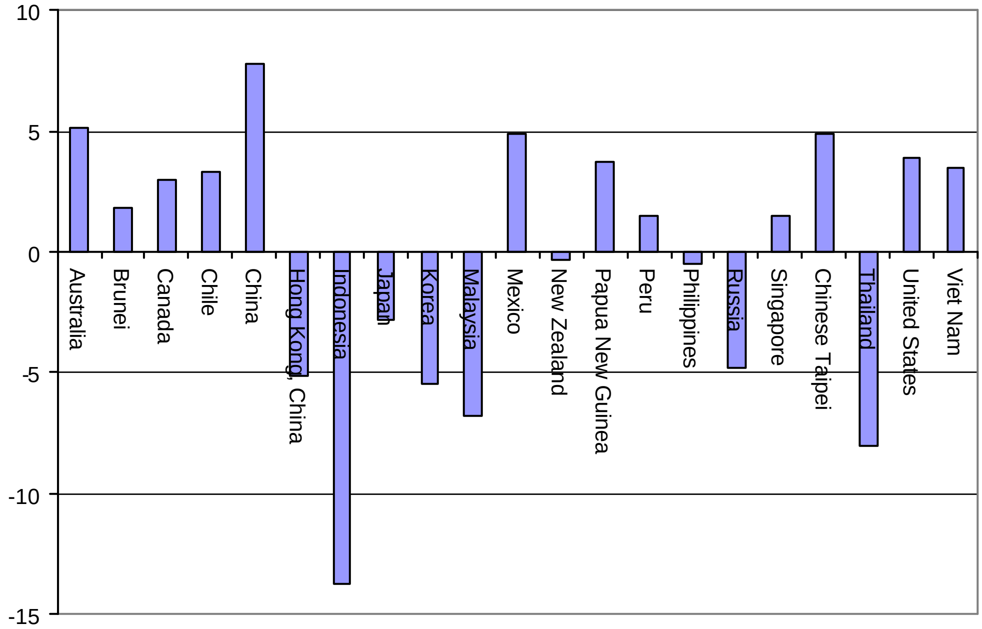
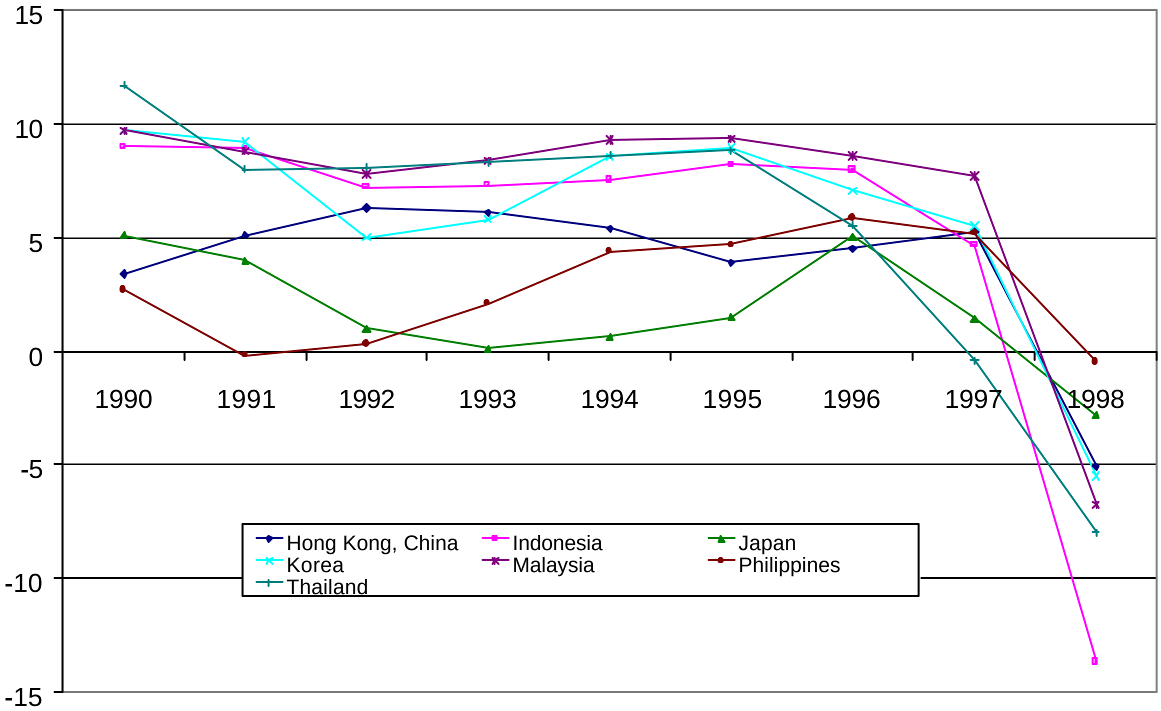


Figure 2 presents real GDP growth rates over the 1990–98 period for the seven Asian economies which experienced negative growth in 1998. Of the seven, Hong Kong, China; Indonesia; Korea; Malaysia; and Thailand experienced the most dramatic declines in GDP growth.

Figure 2: Real GDP growth rates in seven Asian economies, 1990–98



Sources:Data for 1990–93 are from Garnaut (1998); for 1994–98 the data sources are the same as for Table 1.

Figure 2 shows that these five economies had consistently fast economic growth for a long period before the Asian crisis. The average real GDP growth in the first half of the 1990s for Indonesia; Korea; Malaysia; and Thailand was above 7.5 per cent, while Hong Kong, China, averaged 5 per cent growth. Even the Philippines, which previously experienced more modest growth, began to register reasonably strong growth from 1994 onwards, and by 1996 its real GDP growth reached 5.5 per cent. Japan is an exception among the seven economies with an average growth rate of 1.3 per cent over the period of 1990–95. The GDP growth for all seven economies, however, declined in 1997 and fell further in 1998.

One of the questions that arises in the aftermath of the crisis is the extent to which the crisis has affected the labour market situation—employment, unemployment, and earnings—and, in turn, how has it affected the social and economic well-being of the people in these economies. Although GDP growth in most crisis-affected economies is picking up in 1999, it may take a long time for the socioeconomic effects of the crisis to disappear.

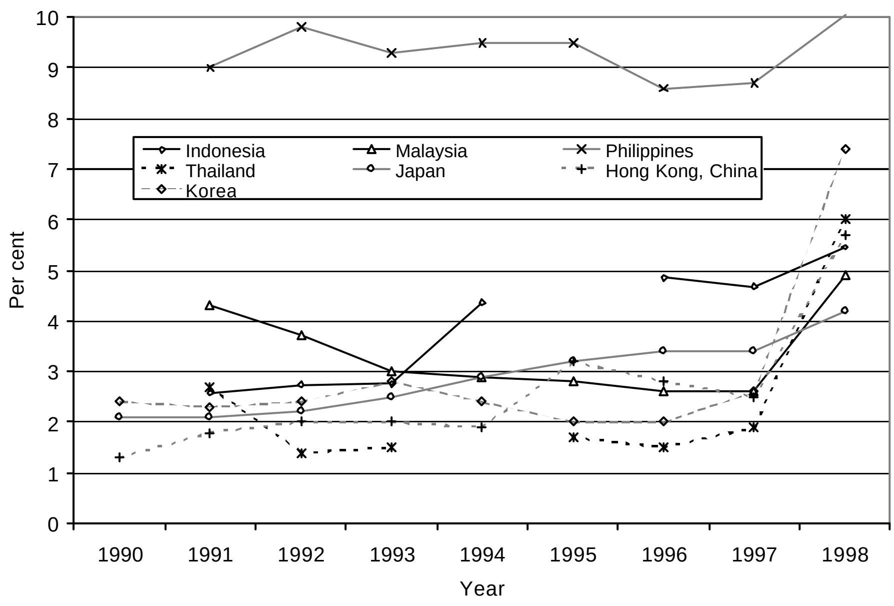
2. The Social Impacts of the Crisis and Labour Market Adjustment

The economic contraction provoked by the crisis has caused widespread social distress in the seven most badly affected economies.

Unemployment

As a result of the declining economic growth, unemployment in all seven economies has increased sharply (see Figure 3). The reported changes in Hong Kong, China; Indonesia; Korea; and Thailand are very dramatic.

Figure 3: Changes in the unemployment rate, 1990–98



Sources (1) International Monetary Fund, *International Financial Statistics*, January and March 1999.
(2) Data for Hong Kong, China for 1997 and 1998 are from Hong Kong, China, Census and Statistic Department website.
(3) Data for Thailand for 1998 is from ILO (1998).

Note: The unemployment rates for Indonesia, Malaysia, and Thailand for September 1998 are estimates.

In Indonesia, the increase in unemployment is not only due to the shrinking domestic labour demand but also to the repatriation of Indonesians working in other parts of East Asia (EIU, 1998a).

Estimates of the unemployment rate in Thailand vary widely. The figure of 5.6 per cent used in Figure 3 is based on an International Labour Organisation (ILO) estimate. On any estimate, however, the number of Thailand's unemployed has increased sharply (EIU, 1998d).

According to the Korean Ministry of Labour, the unemployment rate in the first quarter of 1999 continued to rise to 8.5 per cent. The increase in the measured level of unemployment has been moderated by workers dropping out of the labour force, or working without pay in family businesses, and the incidence of casual workers who have not been paid for over a month. Even though the decline in GDP growth in Korea in 1998 was not as serious as in Indonesia and Thailand, the increase in unemployment was the highest of the seven Asian economies that experienced negative growth. This may be partly due to the relative inflexibility of its wage setting system (which is discussed later), and partly due to its industrial structure, as the urban informal and rural agricultural sectors are not able to absorb displaced workers (Manning, 1999).

While Malaysia's unemployment rate increased from 2.6 per cent in 1997 to 3.9 per cent in 1998, its rate is low compared to much of the rest of East Asia. Part of the reason is that before the crisis, Malaysia was experiencing a very tight job market. There are still shortages of labour within specific sectors.

In percentage terms, unemployment in the Philippines has risen the least of the seven economies in Figure 3. This is partly due to the Philippines being one of the last economies in East Asia to be affected by the financial crisis. It was only in the second quarter of 1998 that the Philippines recorded negative growth. And even so, this decline was seen by many to be the result of drought conditions brought on by *El Nino* and not the result of the financial crisis. Confirmation of this conclusion can be seen in the employment figures for the second half of 1998 when employment rebounded strongly in the agricultural sector, bringing the national unemployment level down from 13 per cent to around 10 per cent (EIU, 1998c).

In Hong Kong, China, the unemployment rate has continued to rise in 1999, increasing to 6.2 per cent in the first quarter (Hong Kong, China: Census and Statistics Department, 1999).

Demographic characteristics of retrenched workers

Because employment reductions are costly from the view point of the loss of human capital and social hardship, it is important to understand which groups of people have been most affected. Using 1998–99 World Bank survey data on the five most adversely affected Asian economies (Indonesia; Korea; Malaysia; Philippines; and Thailand), Meng and Duncan (1999) provide detailed analysis on the characteristics of the workers in the manufacturing sector who were retrenched during the crisis.

Age profile of workers who left firms

With regard to the age profile of workers who were retrenched, the study found that the four economies other than Korea mainly retrenched 21 to 30 year old workers. Workers who became redundant in Korea were mainly in the age group of 31 to 40 years old. The four economies in which laid-off workers were mostly in the age group 21 to 30 years have the more labour intensive industries, and therefore the proportion of production labour is relatively high in these economies (see Table 2). Given that production workers are generally younger than managerial and technical workers, the fact that the 21 to 30 year age group was more likely to be retrenched also suggests that production workers are the ones who suffered the most from the crisis.

Another possible explanation for the predominance of younger workers among those who were laid off might be that many rural migrants are employed in the industrial sector. Rural migrants are often younger than local workers.

Korea has a somewhat different industrial structure than the other four economies. As seen in Table 2, production labour in Korean manufacturing firms accounted for a lower proportion of total labour. If the assumption made above also applies in Korea's case—that is, that production workers are relatively younger—it may be concluded that in Korea it is the relatively older and more skilled age groups that have suffered most from the employment reduction.

Table 2: Occupational distribution in manufacturing firms, 1997 and 1998

	Average number of employees		**Percentage of managerial and technical staff**		**Percentage of production workers**		**Percentage of non-production workers**	
	1997 (no)	1998 (no)	1997 (%)	1998 (%)	1997 (%)	1998 (%)	1997 (%)	1998 (%)
Indonesia	350	319	6.77	7.40	74.83	75.57	18.40	17.02
Korea	354	328	16.65	16.59	55.26	54.86	28.10	28.55
Malaysia	166	155	18.60	19.34	70.23	68.00	11.18	12.66
Philippines	421	386	8.69	8.56	81.84	82.40	9.47	9.05
Thailand	249	236	10.73	11.00	76.17	75.35	13.10	13.65
Total	301	278	11.90	12.18	70.48	70.18	17.62	17.64

Source: Meng and Duncan (1999).

Although the above reported age profile of retrenched workers is from a survey of manufacturing firms, it basically reflects the situation in these economies as a whole. According to these data, the unemployment rate of the youngest age group (15–24 years in 1998) is the highest in Indonesia at 17 per cent. The group with the second highest unemployment rate are those aged 25 to 39 years. Similarly, in Malaysia, the age group which suffered the most is the 20–24 year old group. In 1998, the total number of job seekers in this age group accounted for 48 per cent of total job seekers (Malaysia Ministry of Finance, Economic Report, 1998–99).

Given that in most of the crisis economies it was the younger workers who were more likely to lose their jobs, the following implications may be drawn. First, the younger people are likely to be the less skilled, especially where firm-specific skills are concerned. This implies that the impact of the employment reduction on human capital, from both the point of view of firms and society as a whole, will be limited in the short term. Second, younger people find it easier to learn new skills and hence have more flexibility in the labour market. Therefore, it will be easier for the government or industry to retrain them so that they can fit in with new trends in labour demand. Third, if the young workers are unemployed for a long period of time and do not undertake training during this time, it will have adverse long-term consequences for their future employment. Fourth, young people have fewer family responsibilities. Thus, their retrenchment may mean a lesser social burden and lesser social hardship than if older groups, such as those of ages 31 to 40, were mainly affected. From this point of view, however, it is worrisome that Korea's employment reduction mainly occurred among the 31 to 40 years age group.

Tenure of workers who left firms

Length of firm tenure is often seen as a measure of firm-specific skills. Thus, analysis of the tenure of retrenched workers may provide some indications of how much human capital loss may have occurred due to the crisis.

Meng and Duncan (1999) found that more than 70 per cent of firms in Indonesia, Malaysia and Thailand retrenched workers whose average length of firm tenure was less than three years. For the Philippines this figure was 45 per cent, and for Korea 57 per cent. In the Philippines and Korea more than 20 per cent of firms (in the case of Philippines it is 38 per cent) retrenched workers whose average firm tenure was more than six years. Another 20 per cent of firms in these two economies laid off workers whose average tenure was four to five years. These findings indicate that firm-specific human capital losses may have been more serious in Korea and the Philippines.

The data on firm tenure of retrenched workers only reflects part of the story on human capital losses. According to Indonesian data, among the total unemployed workers in 1998, those who have senior high school qualifications and those who have university degrees suffered the most from the crisis. The unemployment rates for these two groups are double the national average.

Retrenchment of migrant workers

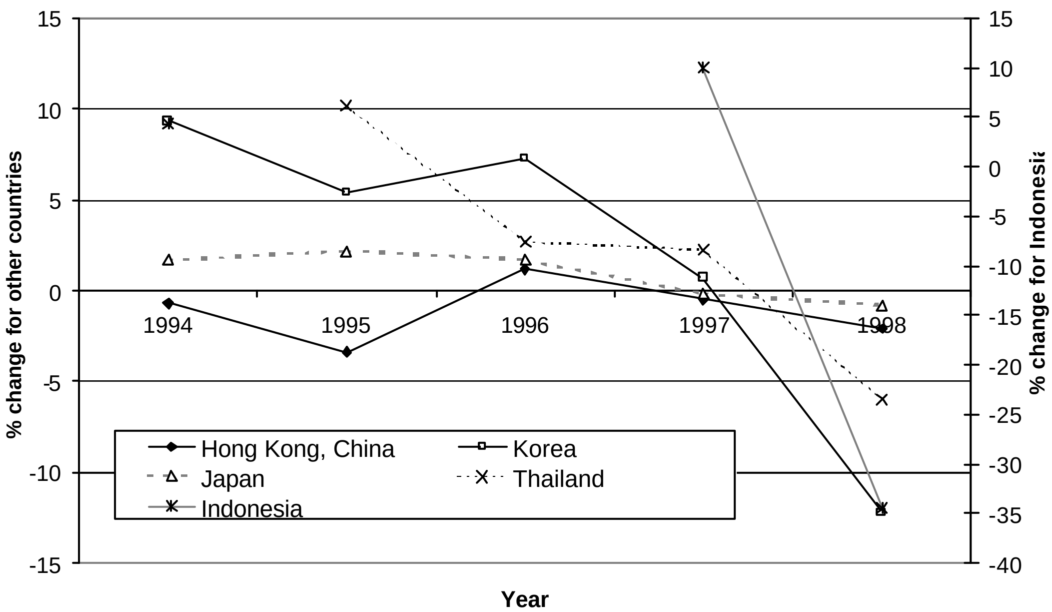
According to the ILO (1998), migrant workers may have suffered the most from retrenchment. Migrants are defined to include not only within-country, rural-urban migrants but also immigrant labourers.

In Indonesia, agricultural employment had been declining for a long period prior to the crisis. During the crisis, however, the total number employed in agriculture increased by 13 per cent in 1998 (Indonesia: Central Bureau of Statistics, National Labour Force Survey, August 1997 and August 1998). This phenomenon was also found in Thailand (Kakwani, 1998). These figures indicate that many retrenched migrant workers have returned to their rural home town and to the support of their families.

Changes in real wages

The economic and social impact of the crisis is not only felt in the form of retrenchment, but also those who remain in employment may well have suffered reductions of real wages. Figure 4 presents real wage changes for five of the economies that suffered a decline in GDP in 1998. In 1998, all five economies experienced a decline in real wages. In particular, real wages in Indonesia fell by 35 per cent, mainly due to the sharp increase in inflation. Average nominal wages in Indonesia in 1998 increased by 17 per cent while the Consumer Price Index increased by 79 per cent.

Figure 4: Real wage changes, 1994–98



Source (1) IMF International Financial Statistics, March 1999.
(2) Data for Indonesia are from Labourers/Employees Situation in Indonesia, Biro Pusat Statistic, Jakarta, Indonesia, various years; and Monthly Statistical Bulletin, Biro Pusat Statistic, Jakarta, Indonesia, various years.
(3) Data for Thailand 1998 are from The World Bank "Thailand Social Monitor, January 1999".

According to the Thailand Labour Force Survey, although the average real wage reduction in Thailand in 1998 was around 6 per cent, the figure was much higher in urban areas than in rural areas (Shivakumar, 1999). Kakwani (1998) confirmed that the crisis adversely affected real incomes in Thailand and suggested that the reason real agricultural incomes did not decline as much as urban incomes was the sharp increases in agricultural prices. The study by Shivakumar (1999) also pointed out that among all workers the less educated suffered the largest decline in real income.

Poverty

According to the ILO (1998), the crisis is likely to bring about a higher incidence of poverty in those economies which have been adversely affected, mainly due to the increased unemployment. The disproportionate rise in the price of food and other essential goods will also aggravate poverty. In Malaysia, for example, the total consumer price index increased by a little above 5.3 per cent in 1998, while the food price index increased by more than 8 per cent (Bank Negara Malaysia: Annual

Report, 1998). In Indonesia, the total inflation rate was 12.8 per cent, while the food price index increased at 16.1 per cent (ILO, 1998).

The incidence of poverty in Thailand has increased, although estimates of the extent of the increase vary.

The International Monetary Fund (IMF, 1998) provided forecasts of the changes in poverty incidence in Indonesia, Korea, and Thailand (Table 3).

Table 3: Change in poverty due to the crisis (1998 forecasts)

	Increase in the number of poor		Due to unemployment		Due to inflation	
	Millions	% of population	Millions	% of total increase	Millions	% of total increase
Indonesia	39.9	20	12.3	30.8	27.6	69.2
Korea	5.5	12	4.7	85.5	0.8	14.5
Thailand	6.7	12	5.4	80.6	1.3	19.4

As Lee (1998) pointed out, the interesting point made in the IMF projection is that inflation was expected to contribute about 70 per cent of the total increase in poverty incidence in Indonesia, whereas in the other two economies the major contributor was expected to be unemployment.

Impact of labour market institutions

The change in employment and earnings during an economic upheaval is heavily influenced by labour market institutions. Hence, understanding the degree of flexibility of the labour markets may assist in understanding differences in the impact of the crisis in different member economies.

Korea has the strongest union movement of the five economies most adversely affected by the crisis. Even though on average across industries only 10 per cent of its labour force is unionised, a much higher unionisation rate is found in the manufacturing industry. Moreover, the unionisation rate is highly correlated with firm size. According to Lee and Kim (1997), while the unionisation rate in firms with less than 100 employees averages less than 5 per cent, it is 26 per cent in firms with 100–299 employees and 36 per cent in firms with 300–499 employees.

During the crisis, unions in Korea have once again demonstrated their power. For example, when the Hyundai automobile factory in Ulsan decided to implement a redundancy plan, workers took the factory over, causing US$650 million in lost production and driving several suppliers to the edge of collapse. The end result was an agreement which allowed the company to lay off 1300 workers, mostly female cafeteria staff, and have another 1200 workers go on voluntary unpaid leave (EIU, 1998d). New legislation was implemented which allowed employers to lay off workers *en masse*. In the negotiations that led up to this change, labour won a promise from employers that workers would not be ‘recklessly’ laid off. In return, the unions agreed that they would work with management to adjust wages and working hours (Lee 1998:17).

Workers in Malaysia are allowed to form and join unions, and about 10 per cent of the workforce is unionised. During the crisis, unions have been supportive of the labour adjustment measures adopted by the Government. The Confederation of Trade Unions is represented in the tripartite Consultative Forum for Retrenchment set up during the crisis to monitor lay-offs and resolve issues on retrenchment. In addition, the Industrial Relations Act, 1967, provides protection for workers against unfair dismissals.

Although unions are prevalent in Philippines and Thailand, they do not play as active a role as in some other economies.

On the minimum wage front, Indonesia, Philippines and Thailand all have minimum wage legislation. In some cases, however, there is a low incidence of wage earners at the minimum wage level, and in others, governments have no adequate method to reinforce the legislation (EIU, 1998a, c, e). Malaysia does not have minimum wage legislation (Athukorala, 1998). Korea introduced a minimum wage law in 1987 where it was initially applied to manufacturing enterprises employing over 10 workers. In 1990, it was extended to include all industries with over 10 workers. About 2.1 per cent of total workers were estimated to be covered by minimum wages (Kim, *et al* 1992).

Although minimum wages may have little application in Korea, the Labour Standard Law introduced in 1953 and reinforced in 1987 has played an important role in the Korean employment system. Employers were restricted from laying-off or dismissing workers unless they had “right causes”. A 30-day advance notice was legally required. A mandatory employer-financed severance pay scheme was also required (Lee and Kim, 1997). In early 1998, the government legalised lay-offs to help employers cope with the pressure the crisis imposed (Veale, 1999).

The above-mentioned institutional differences among the crisis-affected economies may have resulted in differences in the severity of the socioeconomic impact of the crisis among these economies. For example, although Korea is not the worst affected economy in terms of the decline in GDP growth, its registered unemployment rate is the highest.

3. Conclusions

Seven APEC members experienced significant declines in GDP in 1998, five of the Asian economies hit by the financial crisis (Hong Kong, China; Indonesia; Korea; Malaysia; and Thailand) as well as Japan and Russia. Reported changes in unemployment have been severe, especially in Hong Kong, China; Indonesia; Korea; and Thailand. Judging by forecasts of GDP, the worst of the crisis in Asia is over with most of the affected economies expected to record positive growth rates or small negative rates. Indonesia is the only member expected to have a large negative rate of GDP growth in 1999, although much improved on 1998.

From the information available, the unemployment impact of the Asian crisis has been concentrated among the younger workers and the less-skilled, as judged by their ages and firm tenure. The exception was Korea where the workers laid off were predominantly in older age groups, which suggests two conclusions: first the stronger unionisation in Korea, particularly in the larger size firms, has meant less labour market flexibility; second, there may be substantial industrial restructuring taking place in Korea, perhaps triggered by the crisis.

The concentration of unemployment among younger workers means that the loss of human capital and the social distress is not as great as it would be if the increased unemployment were concentrated among older workers. However, if the young workers are unemployed for a long period without training, their long-term employment prospects could be severely affected.

As a result of the increased unemployment and the reduction in real wages, the incidence of poverty has increased. However, it appears that the increase in poverty has not been as large as was expected initially. In those economies with a relatively large agricultural sector, agriculture seems to have played an important role as a safety net for the unemployed as they have returned to rural areas. The rural sector played a similar role in many economies during the Great Depression. Hopefully this will be a temporary setback in the industrial transformation of these economies.

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