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Impact of the
Economic Crisis on
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**ECONOMIC CRISIS
AND ITS SOCIAL
IMPACT:
LESSONS FROM THE
1997 ASIAN
ECONOMIC CRISIS**

**PROF. M RAMESH, THE UNIVERSITY OF
HONG KONG**

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Abstract:

The objective of this paper is to survey the social consequences of the 1997 Asian financial crisis with the purpose of drawing lessons for addressing the current economic crisis. The outbreak of the financial crisis and the ensuing increase in unemployment and poverty triggered worsening of education and health outcomes. The situation stabilized and eventually improved only after massive government intervention in the affected countries. Employment creation programs and cash transfers played a critical role in alleviating poverty, while education, nutrition and healthcare programs helped contain emergence of long-term adverse effects.

Introduction

The current economic crisis brings back vivid painful memories to people and governments in Asia. It was only a decade ago, in late 1997, when economic crisis swept the region, inflicting pain on millions of people and reversing years of economic and social development. While there are significant differences between the two crises in terms of causes, geographic spread, and chronology, both have had grave economic and social consequences. The lessons of the earlier crisis can and should serve as framework for better tackling the current and future crises. The objective of this paper is therefore to provide a snap shot of the 1997 financial crisis in Asia, how it was tackled by different governments in the region, how it compares with the current crisis, and most importantly, the lessons that can be learnt from it to address the current crisis.

The paper concentrates on three countries that were most severely affected by the 1997 crisis, underwent the deepest transformation, and have been subjected to most scrutiny: Indonesia, South Korea and Thailand. Malaysia is also included because it resisted solutions imposed by the international organizations and emerged from the crisis rather well. Philippines is also included, though it largely escaped the worst effects of the 1997 crisis but is finding it difficult to tackle the current crisis. Singapore is included because it is unique in the extent of its scepticism towards broad social protection.

The paper will argue that there is no one blueprint for responding to economic crisis because much will always depend on the prevailing political, economic and social circumstances. What is certain is that crisis is the worst time to be designing a social

protection system because of the reduced government and social capacity at the time. Indeed it is arguable that what nations need is a general social protection system that will automatically spring into action in the event of decline in income, regardless of the cause, scope, and depth of the crisis. So instead of launching new social protection programs each time there is a financial, energy, or food crisis, there should be affordable programs in place before the crisis occurs. Program design is crucial, because some social protection mechanisms are both more efficient and effective, and they should be preferred to those that are less so.

The 1997 Economic Crisis in Comparative Perspective

While this is not the place to discuss the origins of the 1997 crisis, the following succinct summary by the World Bank is appropriate:

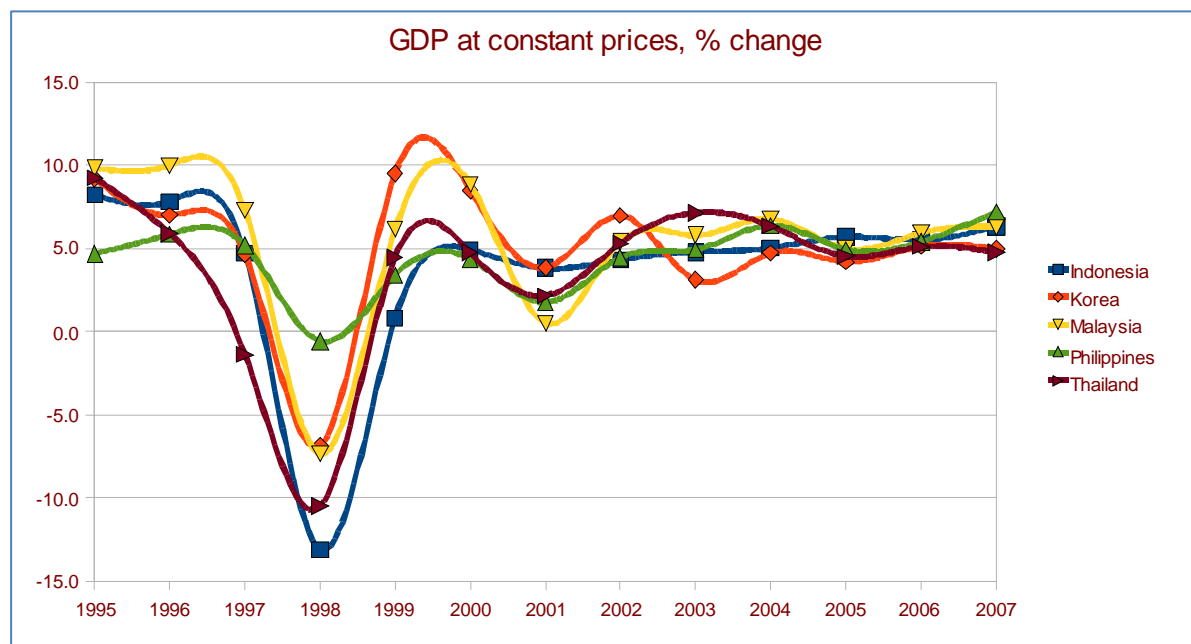
“The lead up to the [1997] crisis involved growing private capital flows to emerging markets - an emerging markets boom - encouraged in part by the prevailing low interest rates in the developed world. In many instances governments had recently liberalized financial institutions, although without building up a sufficiently strong financial supervisory and regulatory capacity. These poorly regulated financial institutions took on excessive external debt, especially short term, foreign currency debt, which they intermediated to local borrowers (who also borrowed abroad directly), stimulating a surge in domestic credit, investment and asset prices. Strong asset prices and growth in turn attracted more foreign capital inflows. Vibrant domestic demand growth also led to the emergence of significant deficits on the balance of payments current account. The crisis began when a sharp change in foreign investor sentiment in mid 1997 led to a sudden stop in capital inflows, a severe liquidity squeeze, the emergence of massive bad debts, a collapse in investment and severe recession.” [Poverty and Inequality - a 10 year perspective]

The social impacts of the 1997 economic crisis in Asia were deep, although they turned out to be less severe than initially projected due to social protection programs put in place amidst the crisis.

In the first full year of the crisis, 1998, the economy shrunk by 13 percent in Indonesia in real terms and by 10.5 percent in Thailand and a comparatively lower 7 percent in South Korea and Malaysia. These are enormous numbers if it is realized that no developed economy has shrunk by such a margin in recent decades. Remarkably, South Korea, Malaysia, and Thailand bounced back strongly in the following year, though they never regained the pace they had enjoyed before the crisis.

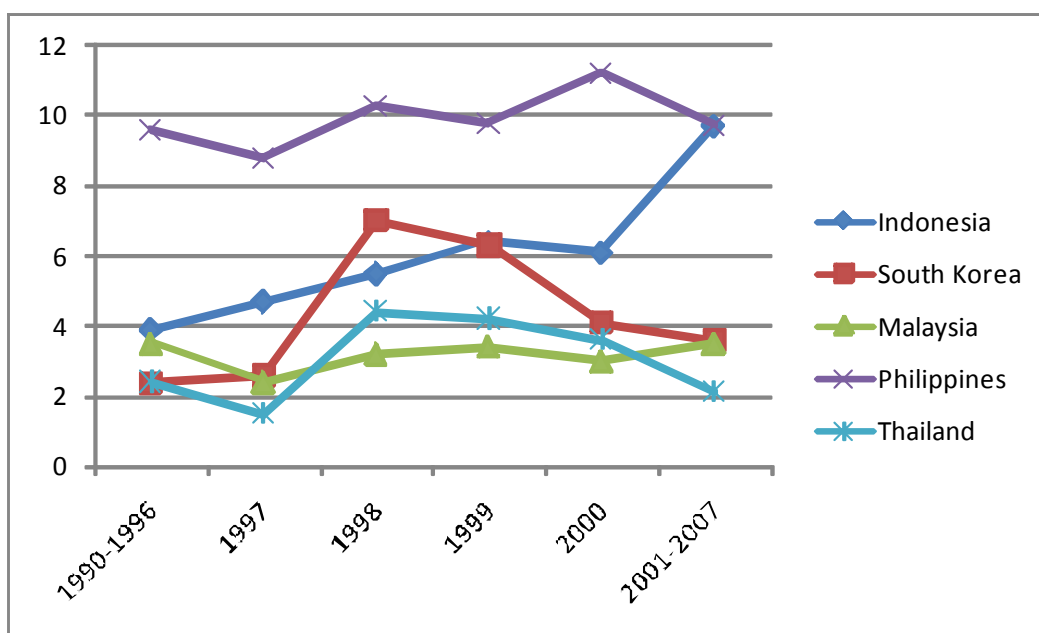
Figure1. GDP at constant prices, % change

Source: See Appendix 1



The decline in economic growth was accompanied by increase in unemployment. These countries, with the exception of the Philippines, had low or negligible unemployment rate and the economic crisis pushed it up significantly: it nearly tripled in Korea and Thailand. What is not captured in the unemployment data is under-employment. It is believed that due to the absence of unemployment benefits, many laid off workers in the affected countries simply reduced the hours they worked or shifted to the informal sector on a part-time basis, especially in countries with large agricultural sectors. In Indonesia, underemployment rose from 37 percent of labourforce in 1996 to approximately one-half in 1998. In Philippines, underemployment was 25.1 percent of the employed workforce in 2000. In Thailand, underemployment rose from 1.7 percent in 1998 to 3.6 percent in 1999. (<http://www.jri.co.jp/english/thinktank/research/aer/2000/AERe200003unemploy.html>).

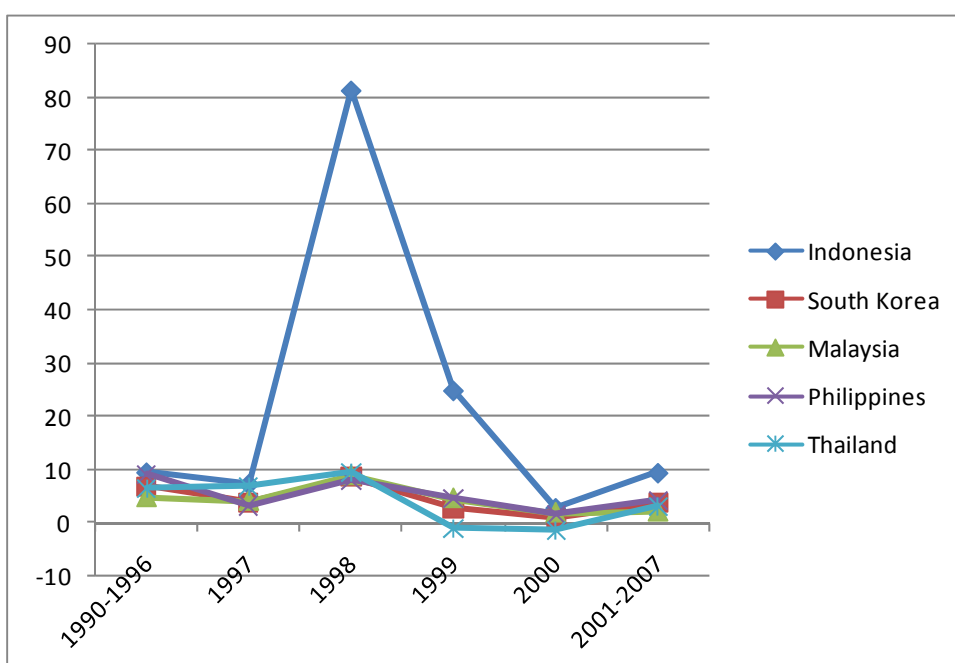
1. Unemployment Rate, %



Source: See Appendix Table 2

The effects of the crisis were aggravated by increase in prices, especially food prices. Indonesia was most affected, with food prices rising by 81 percent in 1998 and 25 percent in the following year. In other countries, food prices went up by less than 10 percent in 1998 and under 5 percent in the following year. These are devastating increases in societies suffering from declining employment and income.

2. Food price index, % Change



Source: See Appendix 3

The economic slowdown was accompanied by increase in poverty, with the \$1/day poverty headcount index increasing from 15.1 to 15.9 in developing East Asia between 1996 and 1999 (Atine, 2003). However, the most significant impact is discernible in \$2/day poverty headcount index: by this measure, poverty increased from 50.9 to 51.2 in developing East Asia and from 43.6 to 52.8 in Southeast Asia over the 1996-1999 period. This confirms that there were a lot of people in the adversely affected countries living just above the poverty line who were pushed under it by the crisis. Estimates of changes in poverty rate between 1997 and 1998 show a rise from 11 to 19 percent in Indonesia, from 3 to 7 percent in South Korea, from 8 to 10 percent in Malaysia, and from 10 to 13 percent in Thailand. It needs to be remembered that these countries were experiencing decline in poverty rate before the crisis, which not only stalled the progress but actually reversed it.

3. Poverty Rate and % Change

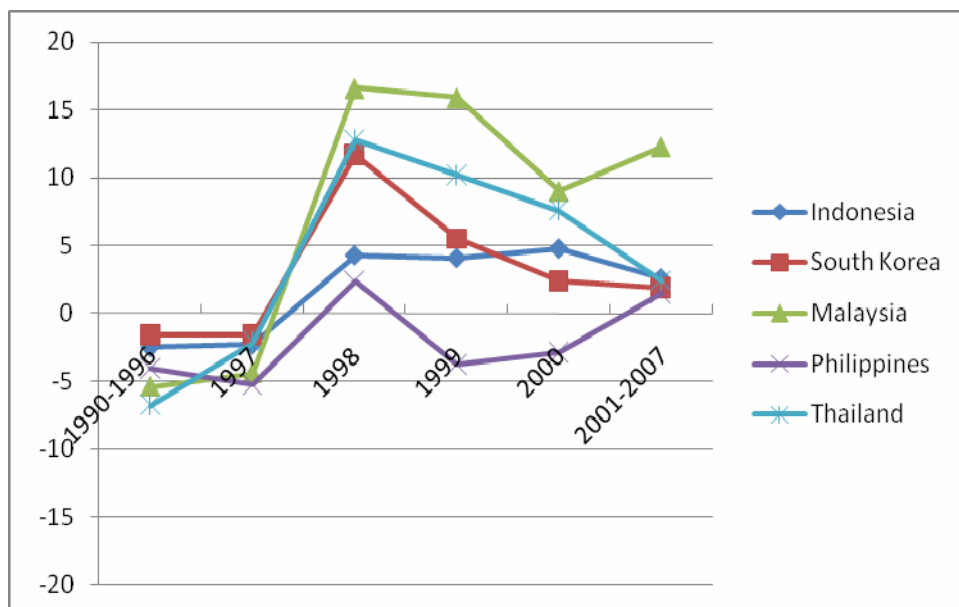
	1997	1998	Change in Percentage Points
Indonesia	11.3 (1996)	18.9	+7.6
South Korea	2.6	7.3	+4.7
Malaysia	8.2	10.4	+2.2
Thailand	9.8	12.9	+3.1

Source: Skoufias (2003:1088) and Lustig (2000:19). Cited in UNICEF 2008

Indonesia was particularly hard hit, as average per capita household expenditure in urban areas fell by about 40 percent. However, the median urban income declined by only about 6 per cent, suggesting that the decline was concentrated among the non-poor. (Gragnotati, 2001) In comparison, mean per capita household consumption in rural areas remained unchanged, which is significant considering that most Indonesians live in rural areas. In contrast, rural per capita income in Thailand declined by about 20 percent during the crisis (Gragnotati, 2001). The different impacts on Indonesia and Thailand is possibly explained by the fact that the recently unemployed urban workers were absorbed in the agricultural sector in Indonesia but not Thailand. The latter had a more advanced agricultural sector with less room for absorbing additional unskilled workers. (Gragnotati, 2001). However, while the poverty induced by the crisis was not as devastating as initially thought, it was not insignificant: about half of Indonesia's poverty count in 2002 was attributed to the 1998 crisis, well after the crisis was over. (Ravallion, 2008)

Current account deficits, the unsustainability of which during the early 1990s is often blamed for triggering the crisis, present a more mixed picture in the region than commonly believed. Thailand's deficit stood at 6.8 percent of GDP during the 1990-1996 period while Malaysia's was 5.4. South Korea's deficit, in comparison, was a rather modest 1.6 percent and Indonesia's 2.5 percent. There is obviously no direct relationship between deficit and the severity of the crisis because Indonesia and South Korea suffered despite modest current account deficit. Be that as it may, the current account balance turned to large surplus in all these countries except the Philippines in 1998 and the situation was maintained in the subsequent years.

Figure 3. Current account balance as % of GDP



Source: See Appendix 4

The decline in economic activity in 1998 was accompanied by shrinking government revenues and expenditures. However, while government expenditures declined, they declined less than revenues, thus increasing budget deficits. In 1998, budget deficit ranged from 1.7 of GDP in Indonesia to 2.8 percent in Thailand and 3.9 percent in South Korea. In the following year, budget deficits rose yet further in Indonesia, Malaysia and Thailand, before declining in 2000. It is worth noting that expenditure cuts to match declining revenues during the slow-down would have only deepened and prolonged the recession.

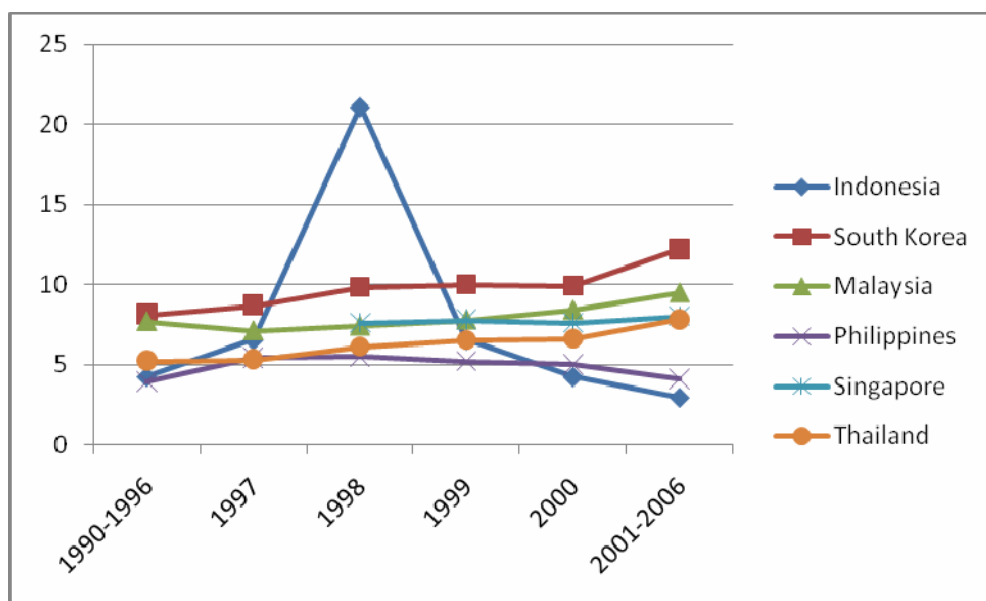
4. Public Finance, central government, % of GDP

		1990-1996 Annual Average	1997	1998	1999	2000	2001-2007 Annual Average
Revenue	Indonesia	17.3	17.9	16.4	18.6	14.7	17.6
	South Korea	17.6	19.0	20.0	20.4	23.5	24.1
	Malaysia	24.5	23.3	20.0	19.5	17.4	21.6
	Philippines	...	19.4	17.3	16.1	15.3	15.4
	Singapore	...	...	31.2	31.4	30.3	23.1
	Thailand	18.5	17.9	15.5	15.4	15.1	16.8
Expenditure	Indonesia	17.1	17.4	18.1	21.1	15.8	19.0
	South Korea	15.8	16.6	18.8	19.1	18.9	22.0
	Malaysia	24.7	21.0	21.8	22.7	22.9	25.8
	Philippines	19.1	19.3	19.2	19.7	19.3	18.5
	Singapore	...	...	19.9	18.7	18.8	17.9
	Thailand	15.7	19.7	18.2	18.0	17.3	17.5
Overall budgetary surplus/deficit	Indonesia	0.3	0.5	-1.7	-2.5	-1.1	-1.3
	South Korea	-0.2	-1.4	-3.9	-2.5	1.1	1.5
	Malaysia	-0.2	2.4	-1.8	-3.2	-5.5	-4.2
	Philippines	-0.9	0.1	-1.9	-3.8	-4.0	-3.1
	Singapore	...	...	3.4	7.1	10.0	5.1
	Thailand	2.9	-1.5	-2.8	-3.3	-2.2	-0.6

Source: <http://sdbs.adb.org/>

Decline in income translated into higher demand for social protection and concomitant pressures on the government to meet the demand. As a result, public expenditures on social policy sectors as a percentage of GDP increased noticeably during the crisis years, especially in Indonesia, South Korea, and Thailand. Large shares of the expenditures were directed at employment creation programs in the hope they would lift income and thus reach the root cause of the problem.

Figure 4. Public Expenditures on Education, Health, housing, and Social Security, By Country, % of GDP

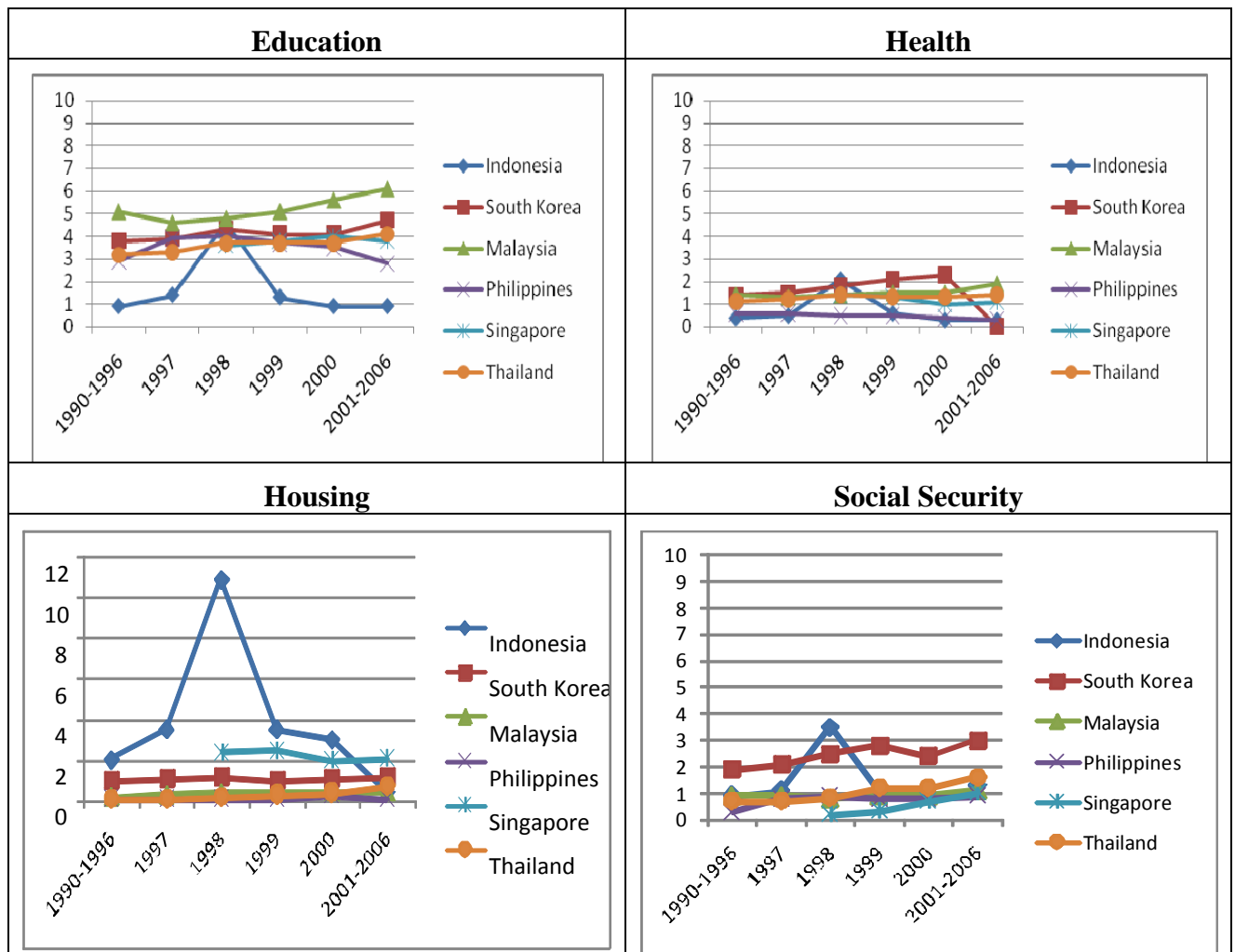


Source: See Appendix 5

However, the increase in social expenditures was not so much an increase in the actual amount spent in real terms (except for Indonesia) as a reduction in size of total GDP and the associated reduction in total public expenditures. But even this was a remarkable achievement given the circumstances.

There are significant variations among Asian countries in the proportion spent on different social sectors. Overall, it was education and community services, and not social security, that experienced the largest increase in the wake of the crisis. This may at least partly be due to the fact that the data for social security do not capture the expenditure on public works and other employment generation programs launched to boost income during economic downturn. Traditionally, Malaysia has been the largest spender on education in the region and this did not change during the crisis. In Indonesia, expenditures on community services projects (as part of job creation measures) nearly tripled between 1997 and 1998, quickly becoming the largest social expenditure component.

Figure 5. Public Expenditures on Social Policies, By Social Sector, % of GDP



Source: See Appendix 5

Declining school enrolment is believed to be one of the lasting adverse effects of economic recessions. Unfortunately, reliable data on enrolment in the crisis years is not available to conclusively know what happened. Available data suggest that enrolment trends were mixed. Thus, in Indonesia enrollment rates decreased among children aged 8- 13 and increased among children aged 14-19 years (Development Research Group, 2008). However, data from Thailand show that the crisis reversed the upward trend in transition rates between primary and lower secondary school. (Anonymous, 1999)

5. Gross Enrolment, %

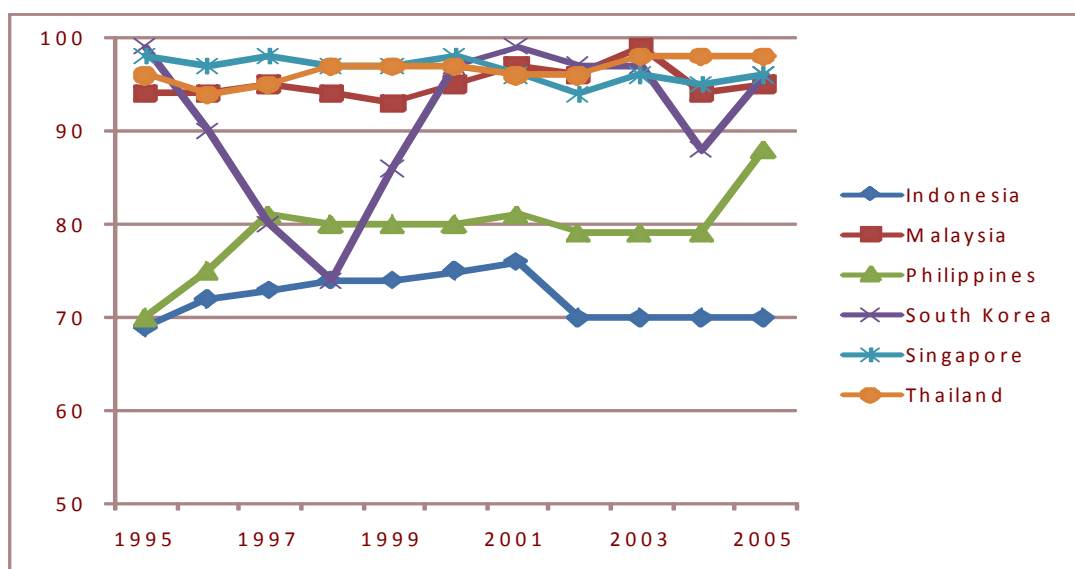
		1991	1998	1999	2000	2005
Preprimary	Indonesia	18	..	23	25	33
	South Korea	55	88	80	78	91
	Malaysia	37	112	108	103	..
	Philippines	12	30	31	30	40
	Singapore	..	..	51	51	..
	Thailand	49	81	97	99	101
Primary	Indonesia	114	..	109	109	115
	South Korea	105	..	95	98	105
	Malaysia	93	..	98	97	..
	Philippines	109	..	113	..	111
	Singapore	103	..	83	81	78
	Thailand	114	..	106	106	109
Secondary	Indonesia	45	..	54	55	62
	South Korea	90	102	100	98	93
	Malaysia	57	66	66	65	..
	Philippines	71	76	76	..	85
	Singapore	67	70	66	64	63
	Thailand	33	..	73	..	77

NOTE: Comparable data not available for 1996 and 1997.

SOURCE: <http://stats.uis.unesco.org/unesco/TableViewer/tableView.aspx>
http://www.unesco.org/education/wef/countryreports/thailand/rapport_2_1.html . World Development Indicators 2008 CD-ROM

With regard to healthcare indicators, available data for pre and post-crisis periods do not show noticeable deterioration at the national level, though there were instances of local decline. Routine data for DTP3 immunization rate show slight improvement in three countries and decline in Malaysia and, especially, Korea.

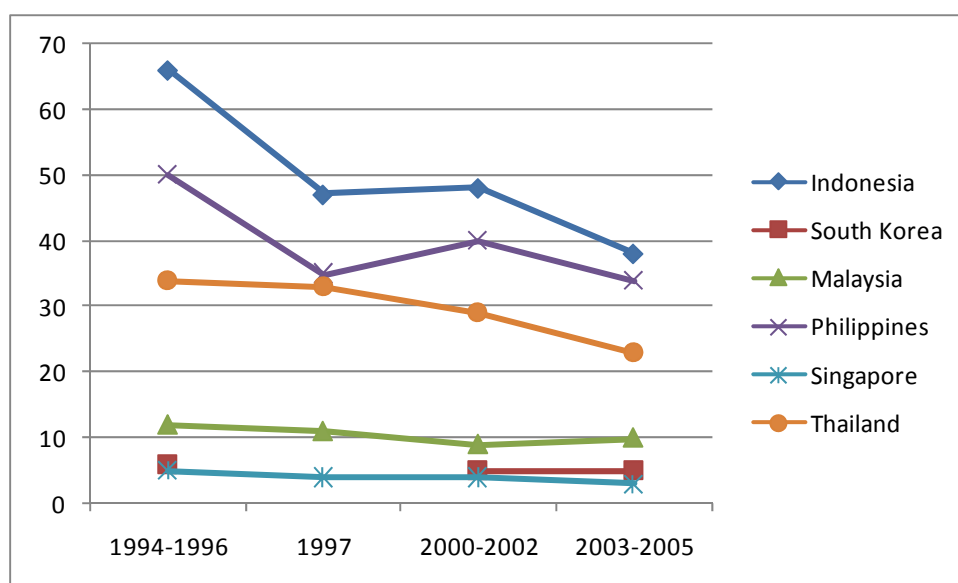
Figure 6. One-year-olds immunized with three doses of diphtheria tetanus toxoid and pertussis (DTP3) (%)



Source: <http://www.who.int/whosis/data/Search.jsp>

Nutritional indicators for children during the crisis period show conflicting trends. According to the RAND Indonesian Family Life Survey (IFLS), the proportion of children who were moderately anaemic or severely underweight for their height decreased during the crisis years. At the same time, the nutritional status of adults deteriorated, particularly among poorer women, which would have impacted maternal health and the children born to affected women. (Anonymous, 1999) Although annual data for infant mortality rate (IMR) is hard to come by, available information suggests there was no or small decline in IMR during the crisis. The true picture remains unclear, however, because a 1-percent contraction in per-capita GDP is known to be associated with an increase in IMR of by 0.18 to 0.44 deaths. (Development Research Group, 2008) Fears remain that the ill-effects of reduced expenditures on healthcare and food would become evident in years to come as children born during the crisis years grow up. (Anonymous, 1999)

Figure 7. Mortality, under-five, per thousand live births



Source: See Appendix 6

The rather modest deterioration in education and health indicators despite increased poverty in the region is notable but perhaps not entirely unsurprising. The education and health situation deteriorated rapidly at the initial stages of the crisis, but stabilized and then improved, thus offsetting the earlier decline. Government measures to tackle the crisis may explain why the social indicators did not deteriorate as much as initially feared.

The 2008 Economic Crisis

In many ways, this is a more pernicious crisis than its 1998 predecessor, as it is conjoined with energy and food crisis. But on the other hand, the financial system and government coffers in Asia are in much better standing now than it was a decade ago – offering some protection against the adverse effects of the crisis (<http://www.imf.org/external/pubs/ft/fandd/2008/12/miniane.htm>). Indeed, as Appendix 8 shows, no country in the region is expected to be in deep recession, certainly nothing in the order of the one experienced in the late 1990s. In fact, economic growth is expected to be positive for 2008 and 2009 despite slowdown. Yet societies and governments in Asia are so deeply integrated with the world economy that they cannot escape the ravages of world economic turmoil and are under tremendous stress. Even a modest decline will make it harder for affected countries to achieve their Millennium Development Goals.

The ongoing economic crisis follows in the heels of energy and food crisis. Price of fossil fuels -- oil, natural gas, coal -- and electricity have risen tremendously in recent years, imposing tremendous stress on governments and households' budgets. Inflation adjusted price of a barrel of crude oil on NYMEX was under \$25/barrel from the mid-1980s to mid-2003, but rose rapidly in the following years, reaching \$60 by August 2005 and peaking above \$140 in July 2008 before falling sharply in the following months. Oil prices have a disproportionate impact on the economy because it is an intermediate product to a range of agricultural, industrial, and infrastructure industries: the effects of significant price fluctuations in oil prices are therefore felt throughout the economy. The recent decline in prices is undoubtedly helpful but its beneficial effects are offset by the prevailing financial crisis.

Since the mid-2000s, the world has also experienced some of the steepest food price escalation in living memory. Between 2004 and 2008, price of wheat, maize and rice increased steeply, by as much as triple in the case of rice. Food prices have declined recently by as much as 40 percent, aided by appreciation of the US dollar and dramatic drop in world oil prices. Nevertheless, they remain high relative to longer-term trends and are subject to severe fluctuations. Countries that are net producers and exporters of oil and food have benefitted from price increase, but their numbers are small. More societies are net consumers and their purchasing power has deteriorated in recent years, pushing the previously near-poor into poverty.

A more significant decline is apparent in depressed stock and property market indices and in seriously pessimistic consumer sentiments. Foreign investors have been fleeing the region and inflow of foreign equity, loan, and bond have more than halved since their peak in 2007 (<http://www.imf.org/external/pubs/ft/fandd/2008/12/miniane.htm>) The financial crisis and the global economic slowdown it has precipitated is posing difficult challenges for governments and households.

As a result of economic slowdown, jobs have been lost and household income has declined, resulting in diminished public revenues at the same time as the need for greater public spending has increased. In a survey of over 140 countries conducted in June 2008 by the International Monetary Fund, 78 countries reported a net increase fiscal burden due to measures taken to address higher fuel and food prices. The median increase in fiscal cost was about 0.6 percent of GDP, though it was as high as 4.8 percent for some countries. Similarly,

the World Bank recently identified 28 developing countries as suffering from acute fiscal vulnerability due to food and fuel price shocks, though only Cambodia in Asia was among the countries severely affected. (Cited in UNICEF, 2008)¹

Some studies suggest that recent food price rise will significantly increase poverty levels. Ivanic and Martin (2008) estimate that “as much as 105 million more people will be poor as a result of a 10 percent food price increase—a potential reversal of about 7 years worth of poverty reduction” (Ivanic and Martin, 2008: 20, quoted in UNICEF, 2008). Recent projection by ADB shows “that a 20 percent increase in food prices would lead to an increase of poor people by about 5.65 million in the Philippines and 14.67 million in Pakistan.” (UNICEF, 2008). The experiences of 1997-1998 are still fresh in people’s mind about how rapidly poverty can rise under recessionary conditions. And when poverty rises and public finance is tight, there is higher likelihood of increased infant mortality, child malnutrition, and school dropout rate.

Crisis and Response: Country Analysis

When the crisis broke out in late 1997, no country covered in this study had social support arrangements adequate for the massive task at hand and, as a result, had to hastily expand existing programs and establish new ones. The lessons of the experience should be instructive for those tasked with preparing for the current and future crises.

Indonesia

By any measure, Indonesia was the hardest hit by the 1997 crisis. The reversal of growth from positive 7.8 percent in 1996 to -13 percent in 1998 is a level of decline few countries ever experience. Jean-Michel Severino, Vice President of the World Bank at the time, was not overstating when he said: “No other country in recent history, let alone one the size of Indonesia, has suffered such a dramatic reversal (*International Herald Tribune*, 28 July 1998: Opinion, 8).” The most obvious social effect of the crisis was in the form of - as described earlier in the paper - increased unemployment and inflation, and ultimately, poverty.

The decline in income and increased poverty rate was initially feared to lead to lasting social damages as families pulled children, especially girls, out of schools and did not seek medical treatment. The reality turned out to be less severe than feared, though still

significant. It is estimated that 2.75 million students in primary and junior secondary school dropped out, the adverse effects of which will be felt for many years to come. The depreciation of the Rupiah doubled or tripled the prices of drugs and other medical supplies. The deliberate strategy to promote private healthcare in the early 1990s came to haunt the government as many private health centres closed down due to lack of business. However, the increase in healthcare costs did not significantly reduce the populations' education or health status, possibly due to the various assistance program places and the relatively short duration of severe recession.

Faced with a deep crisis and no social protection program to adequately address it, the Indonesian government turned to generalized subsidies, the cost of which ballooned to 3 percent of GDP in 1998. (The following discussion is based on Blomquist et al, 2001) Petroleum subsidies accounted for half of the total government spending on social protection, food subsidies for 40 percent, and subsidies for electricity, medicines and fertilizers for the remainder. (Fuel subsidies cost 4.2 percent of GDP in 1999).

Faced with rising cost of general subsidies, the government replaced the generalized rice subsidy with a targeted subsidy on lower quality rice (the OPK program) in 1998. It also tried to roll back fuel subsidies in 1998, but had to retract in face of public opposition. The government finally succeeded in 2000, with the poorest consumers compensated through a combination of targeted subsidies. Each village and urban community was assigned an allocation of subsidized rice on the basis of indicators constructed from national survey. By mid-2000, OPK program was costing the government Rp 5 trillion and reaching about 13 million families, who received up to 20 kilograms of rice per month at a cost of Rp 1,000 per kilogram instead of the market price of Rp 3,000 (Blomquist et al, 2001). However, fuel subsidies continued to attract the bulk of government subsidies.

The government also launched labour-intensive public works program at the cost of nearly Rp 10 trillion. The largest component was the local government-initiated INPRES programs. The government also launched the Pemberdayaan Daerah dalam Mengatasi Dampak Krisis Ekonomi (PDM-DKE, "Empowering Regions to Overcome the Impact of the Economic Crisis"), which combined job creation and micro-credit initiative. It provided grant and revolving credit funds to poor and unemployed groups to improve infrastructure while generating employment. There were also other donor-funded programs, such as the

Kecamatan Development Project (KDP), funded by the World Bank, which provided funds to poor communities for infrastructure projects.

To maintain access to critical public services, the government spent almost a trillion Rupiah on schools, scholarships, and school lunch program in 1998/99 (Blomquist et al, 2001). There were media campaign and community efforts to encourage children to stay in school. Grants were given to the poorest 40 percent of primary and junior secondary schools to compensate for cost increases, while a national scholarship program targeted children at risk of dropping out of junior secondary school. Grants were also given to village health centres for critical health services and nutritional support for mothers and infants.

South Korea

South Korea was the only one among the Asian tigers to be affected severely by the crisis. Its GDP declined by 6.5 percent in 1998, following spectacular growth in preceding years, while inflation climbed by 75 percent. At the same time, unemployment rose to 6.8 percent and poverty to 19.2 percent, which was more than double and triple respectively of the level in the preceding year. Although South Korea had more elaborate social protection system than other countries affected by the crisis, they were insufficient for the magnitude of the crisis they faced. The government responded by expanding unemployment insurance and public works programs and strengthening public assistance. These reforms were in addition to the long-term reforms of pension and healthcare system it undertook during the period.

When the crisis broke out, South Korea was the only country in the region with a significant unemployment support program, launched in 1995, but it covered too few workers at the time to be significant. In 1998, coverage was rapidly expanded to nearly everyone working more than 18 hours a week, thus increasing coverage from 5.7 million to 8.7 million people. The government also shortened the contribution period required to activate eligibility and extended the duration of benefit payments. As a result of these changes, the number of unemployment insurance beneficiaries rose rapidly from 5.7 million workers at the beginning of 1998 to 8.7 million at the end of the year, but still did not provide any benefit to 90 percent of the unemployed in 1999 due to various eligibility requirements. The government also established the Wage Claim Guarantee Fund to help ensure that workers would receive wages and retirement allowances in the event of firm bankruptcy.

Since most of the unemployed could not benefit from the unemployment insurance program, the government launched a major public works program in May 1998 which within ten months of launch was providing 437,000 temporary jobs, though the number of applicants was still higher at 650,000 (Atine, 2003). Public works benefited around 2.5 times more people than unemployment insurance. It was the most expensive social protection program, costing some 2 billion Won (Blomquist et al. 2001). However, it did not largely help white collar workers. Selection of projects, often hurried through in an ad hoc manner, also caused confusion and controversy. For example, wages offered to public works participants had to be reduced several times because some workers were believed to be leaving their jobs to receive the higher wages available through the program (Blomquist et al. 2001).

The government also introduced a job-maintenance program intended to reduce job loss by subsidizing otherwise viable firms in danger of being driven to bankruptcy. The wage-subsidy program paid one-third to two-thirds of a worker's wage if the firm could demonstrate a need for economic adjustment. Before the program was expanded in 1999, the program covered 800,000 workers and a subsequent survey showed that 22 percent of jobs would have been lost without the subsidy (Atine, 2003).

Korea already had a public assistance program benefiting 1.2 million people when the crisis broke out, but it was inadequate for the large number of workers who benefited neither from unemployment insurance nor public works. In response, in 1998 the government developed the Temporary Livelihood Protection Program which expanded eligibility and coverage to an additional 310,000 people. Eligibility conditions included income and assets tests, largely self-reported. Benefits included 79,000 won (\$70) per month in direct cash benefits; tuition fee waivers for middle and high school children of the unemployed; and a 50-percent reduction of the family medical insurance premium for one year. The budget for both the Livelihood Protection program and the temporary program was almost 2 trillion Won in 1999, amounting to 0.44 percent of GDP. (Blomquist et al. 2001) In October 2000 a new law guaranteeing a minimum standard of living to everyone came into effect.

What is notable about South Korea's response is that it did not introduce any new education or healthcare program for those affected by the crisis. This is partly due to the fact it already had Medicaid program, which provided means tested healthcare to those not covered by health insurance. But the lack of targeted education program in all likelihood

caused hardships for some children who needed support but whose families did not qualify for Livelihood protection.

Malaysia

The economic situation in Malaysia was considerably better than many of its neighbours because of its accumulated budget surplus, low exposure to short-term debt, and a relatively well-developed financial sector. Yet it was a far cry from the comfortable position immediately before the crisis. Malaysia's GDP contracted by 9 percent in 1998, compared to a growth of over 7 percent in the early 1990s. Unemployment rose to 5.2 percent of the labour force and would have been higher were it not for the foreign workers who returned to their home country. Malaysia did not, however, experience widespread poverty because employment levels held up relatively well and there were government programs that continued to provide relief.

The Malaysian government was in a better position to address the social consequences of the crisis because of its long experience with anti-poverty efforts among the poor Malays, especially in rural areas. The government allocated an additional budget for the Program Pembangunan Rakyat Termiskin (PPRT or the Development Program for the Poorest) amounting to RM100 million in 1998. PPRT was introduced in 1989 to deal specifically with hardcore poor households through provision of support for commercial production of cash crops, livestock and fish rearing (Daud, undated). The government also provided micro-credit facilities to the poor petty traders and hawkers in urban areas. Education and health care available nearly free of charge also helped the poor. As a result of its increased expenditure commitments, the government's budget deficit reached as high as 5.5 percent of GDP in 2000, which was a steep rise from a healthy surplus in 1997.

The poor, including those pushed recently into poverty, in Malaysia were thus cared for under programs originally designed to uplift the economic status of Malays. The programs in place ensured Malaysia did not experience observable decline in educational performance or health status despite worsened economic circumstances.

Philippines

After having lost much of the 1970s and 1980s to Marcos' mis-rule, and only gradually recovering from it, the Philippines was in no position to face deep or prolonged

economic crisis. Fortunately, it was spared the worst ravages of the crisis as the economy showed surprising resilience, partly because it had not benefited from the sort of hype that had raised its neighbouring economies to dizzying heights. Yet all was not well. The 1997 crisis was preceded by El Nino droughts that had devastated rural income. In 1998, economy shrunk by 2.6 percent, which was one of the better performances in the region. Similarly, unemployment, which stood at 8.6 before the crisis, rose moderately to 10.1 percent in 1998. Activity in the informal sectors decreased significantly, with adverse effects on the income of those working in them. Poverty rate increased by 3 percent in 1998, rising to 35 percent of households (Bautista, undated, p. 124). The decline in government revenues reduced government spending overall, yet public spending on education increased by 3.8 percentage though health spending declined by 7.8 percentage points.

Given the relatively small effects of the crisis and given that the government and population in the Philippines were used to grim economic circumstances almost continuously since the 1970s, there was no launch of any significant social protection program in response to the crisis. Existing programs continued, despite increase in the number of people in need for support: Enhanced Retail Access for the Poor (ERAP), Sari-sari Rolling Store, the Rice Subsidy Program, the Emergency Relief Assistance Program, Medical Assistance for Indigent Families, and the Rural Works Program ((Bautista, undated, p. 125). Philippines has a high NGO presence and many of them expanded their efforts to help those in need.

Singapore

Singapore was the least affected by the crisis among the countries covered in this study, even though it was one of the worst times for the island state since its independence. Its' GDP shrunk by 1.4 percent in 1998 and unemployment rate doubled to 4.4 per cent over the preceding year.

The overall economic situation in Singapore was thus not all that dire, although those living on the margins suffered. The only short term assistance available in Singapore was public assistance, designed for the destitute, the disabled, and the elderly with no other source of income or family to turn to. In face of the crisis, the government established small ad hoc programs to meet the expanded need for income support. Community Development Councils gave interim financial help, though only 72 persons were assisted with US\$23,380 in total until July 1998. There were also provisions whereby the Housing Development Board

deferred or reduced payments of mortgages and the Education Ministry waived school fees. The government had at its disposal large accumulated budget surplus which was not tapped for expanding social protection programs. The government instead concentrated on improving employment opportunities: the rate for mandatory contribution to Central Provident Fund by employers was reduced by 10 percentage points to lower labour costs and thus boost employment.

Thailand

The crisis affected Thailand severely, next only to Indonesia in severity. The greatest impact of the crisis was in the form of increased unemployment, which rose from almost complete employment - the unemployment rate was 1.5 percent in 1996 - to unemployment of 4.5 percent and a much higher under-employment in 1998. As a result of inflation, prices of foreign and local pharmaceuticals rose by 51 and 43 percent respectively (Somchai, undated, 92). According to one study, 45 percent of health centres and district hospitals reported that they provided substandard health care for fiscal reasons. The World Bank estimated that household expenditures on medical and institutional care fell by 36% in real terms over the crisis period (cited in Somchai, undated, 92). Enrolment in high schools was reported to have declined by 10 percent. A government survey indicated that 40 of respondents reported financial hardship as a prime reason for taking children out of junior high schools. (cited in Somchai, undated).

In response to the crisis, the government initially concentrated on creating new jobs for the unskilled and semi-skilled workers. The Tambon Development Program consisting of a public works program to build rural infrastructure was the main employment generation program. It also expanded the existing Poverty Alleviation Program (PAP), which was a micro-credit program providing interest-free loans to poor households for income-generating activities. Thailand also extended the maximum amount of severance pay to 10 months and set up a fund to pay legislated severance amounts to workers whose firms had gone bankrupt.

In April 1999, the government launched a fiscal stimulus package worth about 1 percent of GDP financed from funds provided by international agencies: half of the money was to be spent on generating employment and broadening the social safety net. Two new funds were established: i) the Social Investment Fund supporting community capacity-building and micro- credit projects; and the Regional Urban Development Fund providing

small infrastructure loans to municipalities. As of end-July 1999, US \$56 million had been disbursed under these programs (Blomquist et al, 2001). In addition, the government temporarily reduced the statutory social security contribution rate from 1.5 percent of wages to 1 percent each for the employer, employee and the government to lighten current financial burden on employers and employees.

After emphasizing job training and labour-intensive projects during the early stages of its response to the crisis, the government turned to safety nets expenditures. Although overall budget appropriations for social services declined beginning in 1997, allocations for the Health Card program, maternal and child health, school lunch program and teacher training and materials were protected (Blomquist et al, 2001). Subsidized student loan fund was doubled to \$400 million. To maintain access to healthcare, the government expanded the Low Income Health Card program which entitled holders to receive a package of health services at public facilities at nominal charge. About 20 percent of the population was covered by Health Cards in 1998. The government also extended the health insurance cover from six months to one year after loss of employment.

Policy Lessons from Governments' Response to the 1997 Crisis

The discussion above shows that the 1997 economic crisis was heterogeneous in its impacts across Asia, as was response the response to them. Many of the social impacts that became apparent during the crisis had existed before and were only aggravated by the economic downturn (Gragnolati, 2001). Be that as it may, how governments and societies responded to the crisis offer vital lessons in social development.

A key conclusion of the survey of the social impact of the 1997 economic crisis is that the crisis was deep but not as widespread as initially feared, although there were particular households and communities who were severely affected by its debilitating effects. Governments, aided by international community, acted decisively after initial hesitation which helped stem deterioration. The programs they established were especially crucial for maintaining children's education, health care and education. In hindsight, even the adverse effects that did occur were largely preventable, had there been adequate social protection programs in place.

A basic lesson to emerge from this study is that no society is immune from the need for social protection. Even robust and well managed economies –think of Singapore in early 1997 when all economic indicators were largely positive - enter into difficulties due to factors beyond their control. Insuring against systemic shocks is beyond the means of a significant proportion of households in all societies and it would be both efficient and equitable for the society as a whole to afford them protection.

Another clear lesson to emerge from the cases discussed here is that social protection programs need to be established before and not during the crisis. Such programs help contain the severity of the crisis by acting as automatic macroeconomic stabilizers that boost income and thus shore up consumer demand. Launching new programs during recession not only delays halting the slide but is also difficult because of fiscal constraints during slowdown. The near-absence of adequate income support programs in the countries covered in this study aggravated the recession and made it difficult for governments to protect the population from its worst effects.

Without well-designed programs already in place, during crises governments have no choice but to resort to quick fixes with possible long-term adverse effects. Indonesia's subsidy for rice and especially fuel are examples of ill-designed programs that cost a lot of money but benefitted the middle and upper classes more than the poor. Similarly, all Asian countries that launched major public works program in response to the 1997 crisis did so in an ad hoc manner with inadequate evaluation of the long-term desirability of the projects or their unintended effects. The problems could have been avoided if the governments had contingency plan for coping with deep economic recession.

The primary objective of social protection programs should be to assist those in need rather than boost the economy: the two objectives need to be pursued separately, albeit simultaneously and conjunctively. In the early days of the crisis, Korea and, especially, Thailand launched assistance programs centred on the labour markets that provided little immediate protection to many affected by the crisis. It was only after the Thai government introduced health, nutrition and education programs that benefits began to reach such people.

Another lesson to emerge from this study is that broadly targeted programs should not be dismissed summarily, as is often the case among policy reformers influenced by economic thinking. The case of Malaysia shows that programs designed to uplift the entire

Malay (*Bumiputras*) community, who form over half the population, can also be quite effective during crisis. The existing system of public provision of education and healthcare at no or negligible price meant the government did not have to scamper to establish special programs for households pushed into poverty by the crisis.

The cost of administering strict targeting is substantial, but so is the cost of excessive leakage, suggesting a need for a balance. The community-wide support schemes launched in Indonesia and Thailand amidst the crisis were perhaps the best that could have been done, given the lack of the information on the potential beneficiaries. Governments may sometimes also need to allow leakage knowingly, as when benefits are offered to middle classes in order to win over their political support for programs for the poor (Blomquist et al, 2001). But this should not be done lightly, as rolling back such programs is difficult due to the wide political support they come to enjoy after establishment.

A simple yet effective program for assisting households affected by crisis is a means-tested cash transfer program. Such programs automatically spring into action when there is a need and wind back as conditions improve. It is also consistent with the idea of individual autonomy and consumer choice. Its main limitation is the possible work disincentives they promote, but this fear is an insufficient reason for denying protection to the population faced with economic conditions not of their own making. Strict targeting would also exclude many in need of support: the needy may not know how to apply for benefits while the government may not know how to identify them. A variety of identification methods - including proxy means testing, categorical and geographical targeting, and self-targeting through public works programs or subsidization of items consumed disproportionately by the poor (Blomquist et al, 2001) - may need to be employed to extend benefits to all those in need. Governments may also consider establishing Conditional Cash Transfer programs whereby households are required to send children to school or get them immunized in order to receive benefits.

Public works program were used widely in response to the crisis in the region and this was in all likelihood helpful. Public spending on labour-intensive projects provides aggregate fiscal stimulus while providing income support to the poor. But to maximize the benefits, governments need to ensure that the wages offered cause minimal distortions and that the chosen projects are of lasting value to poor communities.

Finally, governments need to collect and disseminate information related to social sectors in a timely manner if they are to be able to design and implement an effective social protection system. As the World Bank's Development Research Group (2008) concludes: "Sound information and monitoring and evaluation systems are important for an effective social policy response.... Various types of data are needed, including household and enterprise surveys and data on public spending. Geographic breakdowns will often be important." Unfortunately, social protection in the region is still often an afterthought and, as such, allocated insufficient fiscal and personnel resources. Research for this paper provided prima facie evidence to this author that not much has changed with regard to collection and dissemination of data over the last decade: it is just as difficult now as it was in 1999 to find reliable information on social indicators. To this day many of the countries included in this study have not published routine data on education, health, and labour market indicators for the crucial 1997-1999 period essential for preparing for the current and future crises.

Conclusion

The outbreak of the economic crisis in the region in 1997 transformed the policy milieu in the region in ways that would have been unthinkable only a few years earlier. What was once considered dispensable, and even harmful, suddenly began to be considered a vital component of development. The World Bank and IMF as well as Asian leaders suddenly changed their views on social welfare issues and began to admit the need for robust social welfare institutions. The President of the World Bank was reported as saying: "In the end the issue of social security and the issue of the impact on the people are the only issues which matter. You can fix the relationships of some of the financiers but if you do not follow through and think of the implications on the social sector you have nothing - save perhaps revolution and social unrest (Wolfensohn, 1998)." The recognition of need for social protection was one of the more positive outcomes of the 1997 crisis, as governments in the region began to realise that while focussing on economic growth was vital for improving people's lives, it was not a substitute for social protection. Not all government, of course, followed up on the new realization.

There are sound economic and social development reasons for providing social protection to those affected adversely. The most immediate reason for it is that such measures strengthen poor households' capacity to cope with the crisis (UNICEF, 2008). Poverty is

undesirable not just for the people who find themselves in the unfortunate situation, but for the society as a whole, the ill effects of which will be felt for years to come (see UNICEF, 2008 for extended discussion). Poor families consume less, thus aggravating economic downturn. Reduced expenditure on education and essential healthcare has long-term adverse social and economic effects. To sustain themselves financially, they may send their children to work, undermining the children's long-term future. Younger children are especially vulnerable to long-term hardships during economic recessions. It is known that mal- and under-nutrition adversely affects children learning skills and increased risk of disease in later life. According to one study, an increase in education spending by 1 percent of GDP translates into increase in net enrolment from 90 percent to 99 percent, decline in child mortality rate from 76 to 65 per thousand, and decrease in poverty headcount by about 17 percent over fifteen years (UNICEF, 2008).

Economic crisis does not only cause economic and social hardships, it also causes political unrest, as governments in Indonesia, South Korea and Thailand found out at their own expense in 1997-1998. The economy-first strategy works only as long as economic growth is forthcoming and its benefits reach most people. When growth stops, governments have little to fall back upon to legitimise their rule. Social safety nets by protecting against the adverse impact of economic downturn cushion the despair that lead people to turn against their government. Expansion of social programs to strengthen the government's position has been used to great effect from Bismarck in the nineteenth century to Thaksin Shinawatra in recent years.

No matter what specific choices the Southeast Asian governments make, strengthening social policies will be difficult because of the lack of information on social development issues, aggravated by high official secrecy that exist in many countries in the region. Governments will do their population, and indeed themselves, a favour by collecting relevant information and disseminating them in a timely manner so that the problem is adequately understood and appropriate solutions are devised.

Another serious hindrance in the way of establishing social protection programs is ideological aversion to the idea of the welfare state and the belief that Asian societies are somehow unique that render the need for social protection redundant. Fortunately, the limitations of this view are increasingly recognized by even those otherwise sceptical of social protection measures, such as the IMF and the Singapore government, both of which

have recently proclaimed support for expanding social protection. Market and families are ill-suited for providing social protection in adequate quantity to all those who need them, especially during economic crisis when the market is the source of the problem and families have reduced resources available to help their kin. This does not mean that governments must necessarily provide all necessary social protection and public services: it simply means that governments must take full responsibility for their provision and, as such, ensure that they are somehow provided. Privatizing essential functions should not be interpreted as shedding of responsibility, which must continue to lie with the government,

What sort of specific social programs governments develop will depend ultimately on contingent circumstances and the larger political-economic institutional structures. South Korea may well be better equipped to establish comprehensive social programs due to its corporatist legacy that continues despite weakening in recent years. Other countries with lesser experience in social planning may find a basic but comprehensive social protection program more practical: such means tested program would be automatically activated in times of crisis, regardless of cause.

An option that governments do not have is to do nothing, in the hope that crisis are temporary and will eventually pass. Various systemic changes make it likely that the frequency and intensity of crisis will accentuate in the coming years. A UNICEF document sums it up succinctly:

“For a variety of reasons different types of shocks can be expected to become a more common feature of the global economic landscape. Global economic integration, climate change and the increasing frequency of weather-related shocks (e.g. droughts, floods, etc.), evolving energy and food demand (and supply) conditions, rapid economic growth and fundamental economic and political changes in many parts of the developing world (including large countries like Brazil, Russia, India and China), and continuous advancements in financial innovations (coupled with lagging and often limited cross-border regulatory oversight), are only some of the factors that could contribute to a more volatile landscape for years to come.” (UNICEF, 2008)

Governments would do well to prepare for coping with crises rather than treat them as isolated and temporary misfortunes.

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APPENDIX

Appendix 1. GDP at constant prices, % change

	1990-1996 Average	1997	1998	1999	2000	2001-2007 Average
Indonesia	8.0	4.7	-13.1	0.8	4.9	5.1
South Korea	7.9	4.7	-6.8	9.5	8.5	4.7
Malaysia	9.5	7.3	-7.4	6.1	8.9	5.1
Philippines	2.8	5.2	-0.58	3.4	4.4	5.0
Thailand	8.6	-1.4	-10.5	4.5	4.8	5.1

Source: <http://sdbs.adb.org/>

Appendix 2. Unemployment Rate, %

	1990-1996 Average	1997	1998	1999	2000	2001-2007 Average
Indonesia	3.9	4.7	5.5	6.4	6.1	9.7
South Korea	2.4	2.6	7.0	6.3	4.1	3.6
Malaysia	3.5	2.4	3.2	3.4	3.0	3.5
Philippines	9.6	8.8	10.3	9.8	11.2	9.7
Singapore						3.2
Thailand	2.4	1.5	4.4	4.2	3.6	2.1

Source: <http://sdbs.adb.org/>

Appendix 3. Food price index, % Change

	1990-1996 Annual Average	1997	1998	1999	2000	2001-2007 Annual Average
Indonesia	9.4	7.2	81.3	24.8	2.7	9.3
South Korea	7.0	3.9	8.7	2.8	0.9	3.8
Malaysia	4.8	4.1	8.9	4.6	1.9	2.1
Philippines	9.2	3.3	8.0	4.6	1.6	4.4
Thailand	6.5	7.0	9.5	-0.8	-1.2	3.2

Source: <http://sdbs.adb.org/>

Appendix 4. Current account balance as % of GDP

	1990-1996 Annual Average	1997	1998	1999	2000	2001-2007 Annual Average
Indonesia	-2.5	-2.3	4.3	4.1	4.8	2.6
South Korea	-1.6	-1.6	11.7	5.5	2.4	1.9
Malaysia	-5.4	-4.4	16.6	15.9	9.0	12.3
Philippines	-4.1	-5.3	2.4	-3.8	-2.9	1.5
Thailand	-6.8	-2.1	12.8	10.2	7.6	2.4

Source: <http://sdfs.adb.org/>

Appendix 5. Public Expenditures on Social Policies, % of GDP

		1990-1996 Average	1997	1998	1999	2000	2001-2006 Average
Education	Indonesia	0.9	1.4	4.6	1.3	0.9	0.9
	South Korea	3.8	3.9	4.3	4.1	4.1	4.7
	Malaysia	5.1	4.6	4.8	5.1	5.6	6.1
	Philippines	2.9	3.9	4.0	3.7	3.5	2.8
	Singapore			3.6	3.8	4.0	3.8
	Thailand	3.2	3.3	3.7	3.7	3.7	4.1
Health	Indonesia	0.4	0.5	2.1	0.6	0.3	0.3
	South Korea	1.4	1.5	1.8	2.1	2.3	4.1
	Malaysia	1.4	1.3	1.4	1.5	1.5	1.9
	Philippines	0.6	0.6	0.5	0.5	0.4	0.3
	Singapore			1.4	1.3	1.0	1.1
	Thailand	1.1	1.2	1.4	1.3	1.3	1.4
Housing and Community Services	Indonesia	2.0	3.5	10.9	3.5	3.0	0.4
	South Korea	1.0	1.1	1.2	1.0	1.1	1.2
	Malaysia	0.2	0.3	0.4	0.4	0.4	0.4
	Philippines	0.1	0.1	0.1	0.1	0.3	0.1
	Singapore			2.4	2.5	2.0	2.1
	Thailand	0.1	0.1	0.2	0.3	0.4	0.7
Social Security and Welfare	Indonesia	0.9	1.1	3.5	1.1		1.3
	South Korea	1.9	2.1	2.5	2.8	2.4	3.0
	Malaysia	0.9	0.9	0.8	0.9	0.9	1.1
	Philippines	0.3	0.8	0.9	0.8	0.8	0.9
	Singapore			0.2	0.3	0.7	1.0
	Thailand	0.7	0.7	0.8	1.2	1.2	1.6

Source: <http://sdbs.adb.org/>; <http://stats.oecd.org/>; IMF, [Thailand: Selected Issues and Statistical Appendix](#), September 06, 2002. IMF, Government Finance Statistics 2008.

Appendix 6. Mortality, under-five, per thousand live births

	1994-1996	1997	2000-2002	2003-2005
Indonesia	66	47	48	38
South Korea	6		5	5
Malaysia	12	11	9	10
Philippines	50	35	40	34
Singapore	5	4	4	3
Thailand	34	33	29	23

Source: <http://www.who.int/whosis/data/Search.jsp>.
http://www.moph.go.th/ops/thealth_44/CHA5_1.PDF

Appendix 7. The Child Development Index 2008

<i>Country</i>	Under-five mortality rate (per 1,000 births)			Prevalence of underweight children under 5 years (%)			Net non-enrolment ratio in primary education (%)		
	1990-1994	1995-1999	2000-2006	1990-1994	1995-1999	2000-2006	1990-1994	1995-1999	2000-2006
<u>Indonesia</u>	26.8	19.4	9.9	37.5	34.0	28.2	11.3	9.0	5.5
<u>Malaysia</u>	6.5	5.0	3.4	23.3	19.4	8.1	6.0	2.3	0.8
<u>Philippines</u>	18.2	14.4	9.3	33.5	28.2	27.6	3.6	8.1	7.1
<u>Thailand</u>	9.1	5.8	2.3	18.6	..	9.3	12.3	..	5.8

Source: www.savethechildren.org.uk/childindex

Appendix 8. Key Indicators: Indonesia, South Korea, Malaysia, Philippines, Thailand

	Indonesia		South Korea		Malaysia		Philippines		Thailand	
	2007	2008f	2007	2008f	2007	2008f	2007	2008f	2007	2008f
Real GDP (% change y y)	6.3	6.0	5.0	3.9	7.2	4.0	7.2	4.0	4.8	4.6
Unemployment (%)	9.1	..	3.3	..	7.3	..	7.3	..	1.4	1.4
real wages (% change y y)	1.3	..	6.7	..	4.5	..	4.5	..	0.6	..
Consumer Price Index (% change y y)	6.6	11.1	2.5	..	1.9	..	1.9	..	2.4	6.2
Govt Balance (% of GDP)	-1.3	-1.7	3.8	..	2.8	10.0	2.8	10.0	-1.7	-0.8
Current Account Balance (% GDP)	2.4	0.1	0.6	..	-8.2	..	-8.2	..	5.7	-0.4
Foreign Direct Investment (Billions Us\$)	6.9	..	-13.7	..	4.4	1.5	4.4	1.5	10.2	9.5
External Debt (% GDP)	29.6	26.4	39.4	..	-0.5	..	-0.5	..	87.5	96.3
Foreign Exchange Reserves (Billions US\$)	56.9	..	262.2	..	23.0	33.8	23.0	33.8	858	..

Source: World Bank, **East Asia & Pacific Update - Navigating the Perfect Storm**, December 2008