Social Impacts of the Asian Economic Crisis in Thailand, Indonesia, Malaysia and the Philippines: Synthesis Report*

Srawooth Paitoonpong**

The Asian economic crisis that began in July 1997 has been accompanied by widespread social distress in the affected countries of Southeast Asia (Indonesia, Malaysia, Thailand, and the Philippines). A fall in output and incomes in these countries has been invariably accompanied by massive job losses as bankruptcies and cutbacks in production have multiplied. This has led to a sharp rise in open unemployment and underemployment. Job losses, falling wages, rising prices of essential goods and services, foreclosure on loans and/or rising cost of debt from private and public sources, decreased access to and/or increased cost of borrowing, etc. are severely affecting the life of the people, particularly the poor, in the crisis-ridden countries. By and large, negative social consequences are likely to persist long after the end of the financial crisis.

There are variations among the affected countries in many aspects: the level of development, the endowment and accumulation of capital both economic and social, the policies pursued, past experience on economic and financial problems, and so on. To foster an insight for policy formulation in the affected countries as well as other countries in the region, the Thailand Development Research Institute with generous financial support from the Ford Foundation has coordinated a collaborative research project on the Social Impacts of the Asian Economic Crisis in Indonesia, Malaysia, the Philippines, and Thailand.

The major goals of the project are: to document, as well as possible with existing information, the major social impacts of the crisis in Indonesia, Malaysia, Thailand, and the Philippines; to review the positive and negative effects of key policies on the poor, and to suggest appropriate changes in policy responses, both to improve the lot of the poor in the current crisis, and to improve the social and economic framework for dealing with future stress.

The primary objective of this paper is to provide an assessment of the social impact of the Asian financial crisis drawing on the findings of the four country studies. The information, speculation and views expressed regarding causes and impact of the crisis in the participating countries will be as much as possible based on the country studies, except where specifically noted.

THE CAUSES OF THE CRISIS

The “macroeconomic history” of the crisis differs considerably across the four countries. In general, however, it is agreed that rapid financial liberalization, with inadequate attention to problems of corporate governance and of prudential regulation, amid poor macroeconomic management, and other policy and institutional failures, are common factors underlying the problems of these four Asian economies. The previous growth of the four countries had been built on shaky and unsustainable foundations, to varying degrees. Differences in the extent of these structural weaknesses have resulted in differences in the depth and breadth of the impacts of the crisis in the four countries. In brief, the fundamental causes of the crisis, as documented by country studies, include: dramatic decline in export growth; structural weaknesses in local institutions; decreasing competitiveness; export market structure; increasingly liberal capital account policies; financial liberalization with fixed exchange rate; premature liberalization of financial institutions; weak or mismanaged financial mechanisms; weak public and corporate governance; “herd” investment, panic and moral hazards in the financial sector; crony capitalism; currency speculators’ attacks; the International Monetary Fund (IMF) and domestic policy responses; and unstable and unsound political climate.

With such a long inventory of causes, it is hardly surprising that there does not exist an unanimity of views regarding the relative importance of each element. Clearly, there is not one single explanation or cause but a

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complex set of problems that precipitated the crisis. An attempt has been made to group these problems into three fundamental causes of the crisis, viz., a dramatic decline in export growth, increasingly liberal capital account policies, and the "herd" behavior[1] of foreign market participants (Islam 2000: 2). Yet, it was not necessary for the four country studies to fully agree with this grouping of the fundamental causes of the crisis.

The Thai study takes the slow-down of export growth as a signal for the crisis. "Signs of an imminent economic crisis were apparent in 1996 when export growth slowed down and manufacturing competitiveness fell, especially in the second half of 1996, when the export growth rate sank suddenly to zero percent with unclear reason" (Sauwalak 2000: 2). Export slow-down played a big role in bringing about the crisis. The time prior to the crisis was a period of worldwide export downturn with a drop in demand for exports from Asian countries. The Japanese recession and depreciation of yen also led to decreasing demand for imports from other Asian countries. Thailand faced a sharp drop in export in 1996 from double-digit to zero growth rate.

The Thai study attributes the financial meltdown in mid-1997 largely to three policy errors: financial liberalization with a fixed exchange rate, premature liberalization of financial institutions, and failure to prudently supervise the financial institutions. Altogether, these largely mismanaged financial mechanisms gave rise to high speculation and a free flow of capital. What's more, Thailand had been under heavy attacks on the baht from currency speculators since late-1996 and exhausted its foreign reserve defending the currency. Capital flight began accelerating from late-1996 to mid-1997. With the failing government efforts to save the baht, devaluation seemed imminent and there came a crisis of confidence in the currency.

Panic and moral hazards in the financial sector is another factor accelerating the tempo of the crisis. Prior to the crisis, the Thai financial system was already in a mess with high risk investment and moral hazards. Herding investment was mentioned in the Thai study to describe foreign investors' behavior in diversifying investment without sufficient business information. Investors' panic began when creditors started withdrawing their credit as they saw others doing the same. This led to rapid capital flight out of Thailand and the region.

Other factors causing the Thai crisis include the lack of transparency, weaknesses in local institutions, weak macro-economic management by government agencies, and problems of governance in both the public and the private sectors ("crony capitalism"). Structural weaknesses also mattered in the Thai case. Even before the crisis, Thailand was facing the problem of long run competitiveness, with more intensive use of inputs (cheap labor and raw materials) and mobilization of resources rather than increases in efficiency.

The bubble in Thailand burst in 1997 when several currency attacks since 1996 severely depleted the Bank of Thailand's foreign reserve and the baht was finally floated. With exports, and growth more generally, most adversely affected, the property market, construction sector, stock market and financial institutions were also put under strain, setting up the pegged Thai baht as the choice target in the region for currency speculation (Jomo and Lee 2000: 4). By mid-1997 Thailand had exhausted its foreign reserve. The baht was finally floated on July 2, 1997 and the Asian financial crisis arrived.

The currency crisis in Thailand was followed by currency devaluation in Malaysia and the Philippines in mid-July and Indonesia in mid-August of the same year.[2]

At the beginning, Indonesia, which faced the crisis two months after Thailand, seemed to be handling its situation better. It did not go through a long period of denial or a vain and costly attempt to defend the currency; it appeared to act more quickly and decisively in attacking financial sector weaknesses. However, a few key policy misjudgments, together with growing political and social uncertainties associated with the health and political plans of the then President Soeharto, combined to bring about the currency collapse and cause an economic recession much more severe than Thailand's.

The Malaysian study argues that the crisis began as a currency crisis that catapulted into a financial crisis. Jomo, K. S. and Lee Kwok Aun do not quite agree with the many explanations for the crisis such as crony capitalism, poor macroeconomic management, corruption, lack of transparency and moral hazards. For example, crony capitalism—which has existed for some time—failed to explain how Malaysia sustained rapid growth for four decades after independence in 1957 without experiencing an earlier financial crisis of comparable magnitude. The crony capitalism explanation ignores the similarities with financial crises in developed and other developing economies, occurring with increasing frequency since late 1997 (Jomo and Lee 2000: 7). Crony capitalism only exacerbated the crisis in Malaysia.

Unlike Thailand or Indonesia, financial liberalization was not a major factor in the Malaysian crisis. Learning from the experience of the severe banking crisis of the late 1980s, Malaysia prudently improved its regulations, and as a result, its economy was not as badly undermined by liberalization as the other three economies. The level of Malaysia's foreign liabilities did not exceed its foreign exchange reserves.

The currency and financial crises in Malaysia became a crisis of the 'real economy' mainly due to the government's policy responses, and partly due to financial market demands and the IMF. The study pointed out that the crises have been due to the undermining of previous systems of international and national economic governance as a result of deregulation and other developments associated with financial liberalization and globalization. Thus, the erosion of effective financial governance at both international and national levels created conditions that led to the crises (Jomo and Lee 2000: 7).

Other factors also played some part in bringing about the Malaysian crisis. The quasi-pegging of the ringgit to the US dollar and its appreciation before the crisis adversely affected Malaysian exports and growth. The domination of investment in domestic and primary production implied the failure to progress more rapidly to higher value-added production and eroded the export competitiveness. Furthermore, with the baht down in July 1997, the ringgit was under strong pressure. The monetary authorities tried to defend the ringgit but eventually gave up by the third week of July 1997. The cost of aborted ringgit defense was around nine billion ringgit or almost US$4 billion. The ringgit fell precipitously after mid-July 1997, reaching 4.88 to the US dollar in early January 1998. The stock market fell even more severely.

For the Philippines the major cause of the crisis was mainly the speculative attacks on the currency. As Thailand's situation worsened in May 1997, Philippine authorities quickly reacted by intervening in exchange markets and by raising interest rates. After Thailand's move to a floating rate system on July 2, 1997, the Philippine peso was under intense speculative attack. Philippine monetary authorities tried to defend the average peso/dollar value by further increases in interest rates as well as foreign exchange intervention. On July 11, the peso finally went on a float[3] (to P29.45 to dollar from 26.37 the day before). It went down from P26.37 to a US dollar to P40/US$ by the year end.

Another factor that aggravated the speculation was the political uncertainty arising from the growing tension associated with the "anti-charter-change" against the administration under former President Fidel Ramos. Further, the BSP, the Philippines' central bank, was said to have confused the market by being "in and out," leading to new signs of volatility.

From the level of P39.95/US$ at the end of 1997, the peso reached P45.05/US$ in early January 1998 in association with the continued instability in the region, particularly amid the threat of yuan devaluation, the weakening of the yen and the continued speculative attack on the Hong Kong dollar. By this time, the Philippine monetary authorities seemed to yield to the speculative attack by allowing the currency to depreciate along with the rest of the Asian currencies.

ECONOMIC IMPACT

In general, the economic impact of the crisis in the four affected countries include, a dramatic decrease of gross domestic product (GDP) growth with uneven impact across economic sectors, domestic business collapse and insolvency, drastic local currency depreciation, inflation and increased cost of living, retrenchment and unemployment, substantial decrease in income, reduced personal consumption, and reduced government spending. The effect has been felt to a varying degree among the four countries. Thailand and Indonesia were severely affected while Malaysia and the Philippines were less.

In Thailand, the manufacturing sector has been heavily hit, though the impacts have been uneven within the sector. The capital intensive industries were affected earlier and more than the labor intensive industries. By looking at the change in quarterly GDP by sector, the Thai study suggested that the non-agricultural sectors combined have experienced larger negative impacts than the agricultural sector which also registered negative growth in mid-1997 and the first half of 1998. The construction sector experienced the largest negative value changes in late 1997-1998. The manufacturing sector GDP declined to negative values from the second quarter of 1997 but its growth became positive since the fourth quarter of 1998. The real estate and business sub-sector was adversely affected in 1997 and 1998, but began to turn around in 1999. It was observed that although agricultural exports increased during 1997-1998, the benefit of the baht devaluation decreased in 1999.

The Indonesian economic crisis is characterized by massive price adjustment and drastic economic contraction. The biggest factor contributing to the economic contraction was a sharp decrease in investment, while consumer spending was relatively constant. The sharp contraction in the real sector of the economy was accompanied by the movement of resources from the non-traded to the traded sectors, from the import-dependent to the export-oriented industries, and from the modern to the traditional sector. The inflation rate increase was dramatic, reaching 77.6 percent in 1998, from below 10 percent prior to the crisis. The growth rates of liquidity and the money supply increased very drastically in the first half of 1998 while the money in circulation increased by 60 percent in the first six months of 1998. The interest rate was very high in 1998 but started to fall in mid-1999 (decreasing from 30 percent in April and May 1999 to 13 percent in August of the same year). The exchange rates depreciated from Rp.2,400/US$ before the crisis in July 1997, to Rp.15,000/US$ in July 1998, and around Rp.9,000/US$ in September 1998. Tubagus Feridhanusetyawan maintains that the depreciation of the exchange rates was mainly due to the excessive monetary expansion to save the banking system from collapsing (Feridhanusetyawan 2000).

At the Seminar in Bangkok on May 26, 2000, to discuss the findings of the project, Peter Warr showed that the extent of the crises in Indonesia and Thailand could be compared more realistically with a use of the real GDP growth rates of the two countries and some kind of standardization as shown in Table 1. The annual growth rates of real GDP show that Thailand had been hit by the crisis since 1997, got worse in 1998 and recovered in 1999, whereas in 1997 Indonesia was not yet severely impacted by the crisis but was hit harder than Thailand in 1998 and did not recover in 1999. When the growth rate is standardized by using 1996 rates as reference (100), it was found that the economic slowdown in the two countries during 1998-1999 was at about the same level—the growth indices of Indonesia and Thailand in 1998 were, respectively, 9.6 and 12 percent less than the 1996 values. This implies that when the 1998 situation is compared with that in 1996, Thailand appears to have been hit harder than Indonesia. However, when 1997 rates are used as reference (when Thailand was already hit by the crisis), the index in 1998 reflects a less severe impact for Thailand than for Indonesia.

Using a similar approach, the real GDP growth rates of Malaysia and the Philippines indicate that both economies obviously contracted in 1998, Malaysia from 7.7 percent in 1997 to –7.5 percent in 1998, and the Philippines from 5.2 percent down to –0.5 percent between 1997 and 1998. While the real GDP growth indicates that the Malaysian economy grew faster than the Philippine in 1999, the standardized index shows that the Philippines was doing better than Malaysia in 1999, no matter what year (1996 or 1997) was used as reference.

Among the four affected countries, the Philippines was affected the least for several major reasons; its experience of the financial crisis during 1983-1985, the improved political and public governance in relation to financial and economic management, and its export market structure which is tied with the US and European markets. The Philippine exports to the European Union (EU) and the North American Free Trade Agreements (NAFTA) in 1996 accounted for as much as 53.6 percent of its total exports, the highest percentage for any country in Asia (Table 2). Thus, at the outbreak of the Asian crisis, the Philippine government declared that the country was not in crisis. A major reason for this confidence would have been the export factor. Export growth of the Philippines during this period was the highest in Asia (Passadilla 2000: 14).

An additional reason of why the Philippines was less affected compared to Thailand, Indonesia and Malaysia is the timing of the crisis or "luck" as the author puts it. That is, the crisis struck while the Philippine bubble was still incipient (Passadilla 2000: 20).

SOCIAL IMPACT

The examination and comparison of the social impact in the participating countries is constrained by a number of factors. As put by the Malaysian study, the actual impact of the economic recession is difficult to measure empirically and assess with accuracy and objectivity. The links between the cause and effect are not always direct or obvious, and are also subject to theoretical debate. There is also a need to distinguish

Table 1 Growth Rates of Real GDP of Thailand, Indonesia, Malaysia and The Philippines, 1996-1999

	1996	1997	1998	1999
Growth rate of real GDP				
Thailand	5.9	-1.8	-10.4	4.0
Indonesia	8.0	4.7	-13.7	0
Malaysia	8.6	7.7	-7.5	5.4
Philippines	5.7	5.2	-0.5	3.2
Level of real GDP growth (1996= 100)				
Thailand	100	98.2	88.0	92.6
Indonesia	100	104.7	90.4	90.4
Malaysia	100	107.7	99.6	105.0
Philippines	100	105.2	104.7	108.1
Level of real GDP growth (1997=100)				
Thailand	101.8	100	89.6	93.2
Indonesia	95.3	100	86.3	86.3
Malaysia	92.3	100	92.5	97.5
Philippines	94.8	100	99.5	102.7

Sources: Jomo and Lee (2000: 6); Passadilla (2000: 15-20); and Warr, Peter, Seminar on "Social Impacts of the Asian Economic Crisis," Bangkok, 26 May 2000 (commentary note).

Table 2 Export by Destination of the Four Crisis-Affected Countries in 1996 (% of total exports)

	Asian	Chinese econ.	EU	Japan	NAFTA
Thailand	19.0	10.6	15.1	15.8	18.6
Indonesia	13.4	9.9	15.1	26.3	16.4
Malaysia	27.0	12.0	13.3	12.9	20.7
Philippines	12.7	8.8	17.0	18.0	36.4
Singapore	32.7	14.0	11.8	7.2	17.4

Source: Asia Pacific Economics Profiles, Asia Pacific Economics Group, Financial Times, 1997.

other economic trends from the direct social impacts of the crisis even though they might occur simultaneously. In the case of Malaysia, as well as other countries, it is difficult to separate out the adverse impacts of international price movements or other non-economic changes (e.g., weather) on the economy during the crisis. Furthermore, the comparison among the participating countries is made more difficult by the use of different measurements of the effects.

Table 3 summarizes social impact issues covered by the four country studies. It may be observed that a larger number of issues are touched upon in the studies of the more affected economies (Thailand and Indonesia) than those of the less affected economies (Malaysia and the Philippines).

Employment

Employment problems during the crisis consisted of lay-off, wage cuts, reduced work hours, unemployment, underemployment, movement between formal and informal sectors, movement among economic sectors, occupational change, moving out or in the labor force, etc. While effects have differed in magnitude and composition in the four countries, there have been some similarities. For instance, labor market impacts were much more severe in urban than in rural areas. Decreases in employment, hours, and wages appear to have been concentrated much more in the formal than in the informal sectors. And within the formal sector, construction and financial services have been especially hard hit.

In Thailand, unemployment rates increased substantially from their usually low values: the dry season (February) rate having risen from 2.2 percent in 1997 to 4.6 percent in 1998 and 5.2 percent in 1999, while the wet season (August) rate from 0.9 percent in 1997 to 3.4 and 3.0 percent in 1998 and 1999, respectively.[4] The reason why the unemployment rate did not rise too high was partly due to flexible wage rates. While the unemployment rate increased 2.4 percent during the dry season of 1997-1998, real average monthly wage earnings fell 4.62 percent. In addition, unemployment was also cushioned by the reduction in hours worked or underemployment. During the dry season, underemployment (work less than 30 hours per week) increased from 5.5 percent to 10.1 percent and 7.6 percent between 1997 and 1999. A similar increase was also evident in the wet season underemployment. Changes in underemployment rates are more sensitive to the crisis impacts than changes in unemployment rates. Another reason for low unemployment rates in spite of the crisis is the decrease in labor force participation rates, especially in 1998. An additional indicator of the employment problem not usually mentioned in the Thai labor literature is the number of days spent looking for work. Sauwalak Kittiprapas reports that during the crisis the average number of days spent looking for work during the slack season (February), increased from 60 days in 1997 to 69.4 days in 1998 and jumped to 92.8 days in 1999. During the high season (August), it increased from 74 days in 1997 to 87.5 and 91 days in 1998 and 1999 respectively (Sauwalak 2000).

Table 3 Social Impact Issues in the Four Country Studies

Issue discussed		Thailand	Indonesia	Malaysia	Philippines
Employment		✓	✓	✓	
	Formal/informal/displaced	✓	✓		
	Unemployment	✓	✓	✓	✓
	Underemployment	✓	✓		✓
	Participation rate	✓	✓	✓	✓
	Sectoral mobility	✓	✓	✓	✓
	Retrenchment	✓		✓	✓
	Wage, real wage	✓	✓	✓	
	Strikes			✓	
	Geographical mobility	✓			
	Urban-rural migration	✓	✓		✓
	Overseas/guest workers	✓	✓		✓
Vulnerable, disadvantaged groups	Women	✓	✓	✓	
	Children	✓	✓	✓	✓
	Elderly	✓	✓	✓	
Poverty		✓	✓	✓	
Income distribution		✓	✓		✓
Education		✓	✓	✓	✓
Health		✓	✓	✓	✓
Housing/shelter		✓			✓
Environment		✓			
Community/family		✓			
Food security			✓		
Safety net		✓	✓	✓	✓

The movement of workers between the formal and informal sectors as reported by Sauwalak deserves a closer look. The definition adopted by her is broad and arbitrary. Her conclusion that the formal sector employment expanded instead of contracted seems to be against the fact that during the crisis, particularly in 1998, there was a large number of lay-off from formal establishments in the range of 355,000–656,000 workers (Srawooth 2000a: 13). Secondly, there was widespread downsizing of formal employment institutions both in the public and private sectors. Thirdly, there was a big drop in the number of workers in the construction sector during the crisis. However, while formal employment, as defined by Sauwalak, decreased by 498,930 persons between 1998 and 1999, during the dry season, informal employment increased by 32,965 persons; during the high (wet) season, employment in both sectors increased. Furthermore, the cut off point of those working in establishments employing 10 persons and more as formal employment, because of the reason that such employment is regulated by the labor law, may not be valid anymore. Starting from April 1, 2001, "all" establishments will have to enroll in the national social security system.

By economic sector, employment in construction dropped significantly while manufacturing and finance also lost some workers. The loss may have been absorbed by the services and commerce sectors. The magnitude of sectoral movement in 1999 was smaller compared to 1998.

In Indonesia, unemployment increased slightly from 4.7 percent in 1997 to 5.5 and 6.4 percent, respectively, in 1998 and 1999. This increasing trend suggests that the adjustment in the first year of the crisis was the adjustment in real wages due to inflation, with a slight increase in unemployment. When inflation decreased in 1999, thereby sharply increasing the real wages, employment finally had to adjust, and as a result, the unemployment rate was higher in 1999. The Indonesian study quoted Agrawal (1996) in concluding that unemployment in Indonesia is not a serious problem: first, the unemployed are mainly young people who have entered the job market for the first time, and second, the duration of unemployment is usually short—an indication of the relatively flexible nature of the labor market in Indonesia.

Unemployment in Malaysia during the crisis increased from 2.4 percent in 1997 to 3.2 and 3.0 percent, respectively, in 1998 and 1999. This level of unemployment was in fact lower than the rates in 1991 (4.6%) and 1992 (3.7%). Even so, Jomo and Lee (2000: 29) mention that the impact of the crisis in reducing employment came as a shock as Malaysia had been accustomed to sustained economic growth for many years. Employment in construction fell most sharply in 1998, while manufacturing, agriculture, as well as financial and business services also hard hit; manufacturing continued to experience severe job losses in 1999.

Surprisingly, the unemployment rate in the Philippines increased drastically in 1998 to 10.1 percent, from an average of 8.4 percent during 1990-1996. The figure could have been higher if the labor force participation rate did not decline from 66.7 percent in 1996 to 66.3 and 66.1 percent, respectively, in 1997 and 1998. The labor force dropout rate was most pronounced among the younger age bracket, i.e., the 15-24 age group, suggesting that most of the job cuts involved temporary and/or short-tenure rather than full-time and log-tenure jobs. Most of the unemployment occurred in Metro Manila. The majority of unemployment in 1997 and 1998 was in the lower skill market like production, clerical and agricultural work. Underemployment, on the other hand, declined slightly by 6.0 percent from 1997 to 1998.[5]

The crisis affected overseas Filipino workers (OFWs) a little less than was earlier expected. The OFWs have been an important source of foreign exchange for the Philippine economy for many years. They also helped ease the country's unemployment problem; without the overseas jobs, the unemployment rate would have increased by another 2 percentage points. The Asian market share of OFWs in 1997 increased to 42 percent from 27 percent in 1990. The affected economies of Indonesia, South Korea and Thailand employ less than 10 percent of the OFWs working in Asia. However, data on deployment and remittances show that growth has slowed. Foreign remittances dropped by 14 percent in 1998 from 1997. Although in the first half of 1999, total remittances picked up, remittances from Asia continued to drop.

Poverty and income distribution

In most affected countries, income losses were widespread across occupations and sectors. In the Thai public sector, civil servants were subject to pay cuts ranging from 5 to 10 percent, and a freeze has been imposed on salary increments for higher categories of civil servants. In the private sector, especially in construction, finance, and manufacturing, significant lay-off were obvious. The private sector faced even greater income reductions as a result of cuts in salary, overtime pay and other benefits. Workers in small and medium enterprises and the self-employed were expected to lose substantial income.

Calculations based on the Socio-economic Survey data of 1996 and 1998, reveal only minor changes in aggregated poverty and income distribution between the two years. The Thai study provides data on changes in average real income by work status and income components, poverty incidence, and poverty profiles by different classifications of households. The study applies a new poverty measurement based on the weighted calculation of calorie requirements, consumption basket and spatial price indices. Accordingly, the poverty lines based on this method, for rural and urban areas, respectively, were 8,878 and 10,924 baht in 1996, and 10,383 and 12,350 baht in 1998. With reference to these poverty lines, the study concludes that poverty incidence (by head count index) for the whole country increased marginally from 14 percent in 1996 to 14.29 percent in 1998. The number of people under the poverty line increased from 8.42 to 9.12 million or by 8.3 percent. Under a more conventional approach of poverty measurement, with lower poverty lines,[6] the National Economic and Social Development Board (NESDB) indicates that the number of the poor was 6.8 million in 1996 and increased to 7.9 million in 1998 or by 16 percent (NESDB 1999: 4).

According to the Thai study, poverty incidence increased in almost every part of the country except in the North. Bangkok and the rural areas were more affected by the increase in poverty incidence. Yet, more than half of the poor were living in the Northeast. It was found that those in agriculture and construction were worse off during the crisis. The study indicates that the extremely high and low educated groups (higher education graduates and unskilled workers) were more affected by poverty than the others. The Thai study also examines changes in income shares by decile and income distribution. In contrast to the findings of another study (Knowles *et al.* 1999: 17), the Thai study suggests that income distribution slightly improved because the rich were more affected and lost greater income share than the poor.

A comparative analysis of the crisis-induced poverty in Indonesia is made difficult by the use of different methodologies and types of data. Keeping this in mind and with some adjustments, poverty incidence in Indonesia appears to have declined from 9.75 percent in February 1996 to 7.64 and 7.53 percent, respectively, in February and May of the following year. It went up to 13.1 percent in February and 16.07 percent in August 1998, and peaked at 17.35 percent during September and December 1998. By August 1999, the poverty rate came down to 9.79 percent, close to the level in 1996.

Based on the expenditure level, the distribution of real expenditure in Indonesia appears more even after the crisis. The data shows that the upper middle class was hit harder during the crisis. In general, the expenditure of the rich fell more than that of the poor.

In connection with poverty, food security became a crucial issue at the household level in Indonesia. Food prices increased by more than 118 percent in 1998, compared with the 78 percent increase in general inflation and a 17 percent increase in nominal wages, on average. The average price of rice increased from about Rp.1,000/kg just before the crisis in 1997 to about Rp.2,750 (a 275 percent increase) in early 1999.

The poverty rate in Malaysia increased from 6.1 percent in 1997 to 7.0 in 1998, reversing the long-standing trend of declining poverty, from 8.9 percent in 1995. The incidence of hardcore poverty—defined as households receiving less than half the poverty line income—also rose, from 1.4 percent to 1.7 percent. The number of households living below the poverty line increased from 346,000 in 1997 to 422,100 in 1998, i.e., by 22 percent, according to another social impacts survey.

The effect of the crisis on income distribution in the Philippines was examined through the SAM (social accounting matrix). The result shows that much of the effect fell on the middle income group, particularly those at the lower end (earning between P50,000–99,999 a year), and those in the urban sector. The highest income class was also affected by the crisis. On the other hand, the two poorest income groups (family income under P20,000 and between P20,000–49,999) were less adversely affected.

A study by the Asian Development Bank (ADB) (*Knowles et al.* 1999) shows that the incidence of poverty in the Philippines declined significantly from 44.2 percent in 1985 to 35.5 percent in 1994 and 32.1 percent in 1997. But there are no comparable post-crisis estimates of poverty incidence. The surveys of the Social Weather Stations, however, indicate an upward trend in self-rated poverty between 1997 and 1998.

Education

Possible impacts of the crisis on education include: an increase in the number of school dropouts (due to contraction of family income and the increasing cost of living as well as need for supplementary family labor); education budget cuts; reduced enrolments; and a reduced rate of transition to higher education. In Thailand, an official estimate suggested that in 1998 some 126,000 students dropped out due to the crisis, another 276,000 left school early (after primary or secondary schooling), and a number of others moved to lower-priced schools or shifted from urban schools to less expensive rural schools. In general, school enrolments dropped 7.2 percent for private schools and 1.8 percent for public schools.

In Indonesia, the secondary school enrolment rate dropped by only 5 percent from the level of 65 percent prior to the crisis. The decrease of the enrolment rate was more significant in urban areas. The dropout rates among children aged 13-19 (secondary school) in urban communities increased from 11.1 percent in 1997 to 17.5 percent in 1998. In rural areas, it increased from 13.5 percent to 16.8 percent over the same period. The enrolment rates at the elementary level decreased slightly by 0.1 percent in rural areas, and 3.3 percent in urban areas. For the secondary level, the enrolment rates declined by 5.2 percent in urban areas and 2.5 percent in rural areas. By and large, the Indonesian impact of the crisis on education is not alarming, considering the fact that the dropout rate in Indonesia has already been quite high. This view is consistent with the findings of the ADB study that the crisis has not yet had a dramatic effect on school enrolment, particularly at the primary level (Knowles *et al.* 1999: 24).

Similar to Indonesia, primary school enrolment in Malaysia appears to have been fairly unaffected by the crisis. In fact, the number of under-enrolled primary schools (i.e., with less than 150 students) declined during 1997-1999. Secondary school enrolment did not show significant declines either, both at the start of the 1998 and 1999 school years.

However, the impact of recession on education may not be reflected in enrolment rates as families may choose to continue their children's education for many reasons and adjust family spending or apply other solutions, and may also receive direct or indirect forms of government support. For example, the cost of textbooks which is a major financial burden for low-income families could be subsidized by the government. The impact of the crisis on education in Malaysia is also difficult to assess because data on dropout rates are not publicly available, while other qualitative aspects of education are difficult to measure.

Tertiary education may be more obviously affected. Malaysia has a very high proportion of tertiary students studying abroad, especially in the UK, Australia, the US, Canada, India and Taiwan. The sudden increase in foreign education costs, due to the collapse of the ringgit, has compelled many students to seek alternatives locally. Some prospective students had to postpone or cancel their study plans.

The impact of the crisis on education in the Philippines is not clear (partly due to lack of data on drop out after 1998). At the elementary level, the dropout rate in the public schools declined from 8.3 percent in 1997 to 7.77 percent in 1998. For the private schools, the decline was from 4.3 percent to 3.93 percent over the same period. Between 1998 and 1999, however, the enrolment rates in elementary and secondary public schools increased, while those in private schools decreased, implying that there were some movements of students from private (more expensive) schools to public (less expensive) schools. On the supply side, the Philippine study indicates a reduction of education budget from 24.74 percent of government consumption in 1997 to 24.18 percent in 1998. This cut resulted in fewer classroom units and desks built, reduced provision of instructional materials, and limited training of personnel.

Health

The crisis could affect health conditions of the people in many ways. For an individual, the increased burden, more work for less money, change in work condition, increased tension, etc., could result in health problems. In addition, the decrease in health expenditure, private or public, due to the rising costs of health services or decrease in income, could affect the supply and consumption of health services.

In general, health problems due to the crisis in the affected countries are not clearly identified. In Thailand, the incidence of underweight children increased from 7.9 percent in 1996 to 11.84 percent and 12.29 percent, respectively, in 1997 and 1998. Mental health problems have become more critical. The number of out-patients increased from 778,457 in 1997 to 804,906 in 1998. In Indonesia, there has been a slight increase in the number of population with health problems. The *Susenas* data shows that the percentage of population with serious health problems increased from 12.8 percent in 1997 to 14.6 percent in 1998. The results from the 100 Village Survey data show a higher increase in the number of persons with health problems, from 19.4 percent in 1997 to 27.5 percent in 1998. Health problems in Malaysia and the Philippines were not mentioned in the respective country reports.

While the impact of the crisis on health was not clearly identified in the country reports, its possibility can be inferred from the widespread reductions in health expenditure and budgets and increasing costs of drugs and medical services. In Thailand, the budget of the Ministry of Public Health (MOPH) for 1998 was 9 percent less than the previous year's. In real terms, the 1999 MOPH budget was 23 percent lower than that of 1997 (Knowles *et al.* 1999: 28).

In Indonesia, the decline in government spending on health services led to a shortage of medical supplies in the rural and village health stations (*Puskesmas* and *Posyandu*). The budget cuts also reduced the subsidy for drugs and medical supplies and eventually led to the increase in costs and prices of health treatments. The IFLS (Indonesian Family Life Surveys) show that, in general, public facilities appear to have been adversely affected by the reduced availability of drugs and supplies. Unlike what the trend in the other affected countries, these surveys show a decrease in the use of public services. There are possible reasons for this. One is the crisis-induced quality deterioration in the public health services (Knowles *et al.* 1999: 29), and second, a shift toward traditional health services (Feridhanusetyawan 2000: 35).

In Malaysia, some aspects of health-care have been severely affected by the crisis. There was a decline in budget allocations for public health, despite rising federal health expenditure. Increased health service costs have also reduced access of low-income households to affordable health care, and as a result, there has been a shift away from using private to public health services. In turn, various government health service facilities have become overloaded and overcrowded. Furthermore, there has been an increase of 30 percent in the price of imported drugs which comprise 60 percent of pharmaceutical drugs used in the country.

In the Philippines, the impact of the crisis on health was apparent in the fiscal budget reduction and increased peso value of medicines and other medical goods. At the onset of the crisis, a 25 percent mandatory saving was applied for all government departments. The Health Department budget dropped from 4.31 percent of the total government spending in 1996 to 3.52 percent in 1998. Such a million-peso reduction would inevitably result in reduced health-care services and decreased medical supplies. The reduction in supply of important medical items such as vaccines meant a decline in the quality of medical services. The Department of Health estimates more than 600,000 patients may not have been diagnosed for some illness and another 3.6 million may not have been provided laboratory services in one way or another.

Other social problems

Other social problems examined by the country studies include, food and nutrition (Philippines), housing and shelter (Philippines), environment (Thailand), community and family (Thailand), food security (Indonesia), and the disadvantaged (Thailand and Indonesia). By and large, these issues were broadly discussed, without clear identification of linkages to the crisis.

SOCIAL SAFETY NETS AND GOVERNMENT RESPONSES TO THE SOCIAL IMPACT

The crisis has resulted in a number of social problems and increasing need for social welfare. In general, the four Asian countries have not adequately developed formal "Western-style" social safety nets.[7] Mostly, there is a limited mandatory compensation in the form of severance pay or other benefits for those who are laid off; there is no unemployment insurance, and other social security benefits for the unemployed are also very limited. Further, most of the social security benefits are not available to the self-employed or workers in the informal sector, who comprise the majority of the workforce in these countries. Thus, the vulnerable groups in these countries tend to rely primarily on informal and traditional safety nets provided through the family and/or community.

Current formal safety nets in Thailand include severance payment and a social security system. The severance payment, which is available only to those in the formal sector, amounts to 10 months of pay for those who have worked for at least three years. The present social security system covers private enterprises employing 10 workers or more, but not the self-employed, as erroneously reported in the Thai study. In fact, beginning April 1, 2001, the system will cover all establishments employing one person and more. As of September 1999, the beneficiaries of the social security system were 5.5 million workers (only about 15 percent of the total labor force). The Thai study's review of the safety nets, particularly the existing programs prior to the crisis, was not exhaustive. There are, in fact, many more forms of safety nets provided both formally and informally. For example, for the public sector at least, there is a pension system for civil servants. The Ministry of Labour and Social Welfare also provides a number of welfare programs for the disadvantaged, such the elderly, the disabled, and the unemployed.

To cope with the crisis, the Thai government has adopted a number of rescue programs, which include the Asian Development Bank's Social Sector Program Loans (SSPL) of US$500 million aimed at supporting social projects via the ministries of Education, Public Health, Labour and Social Welfare, and Agriculture, and the World Bank loans of US$300 million, disbursed through the Social Investment Program (SIP), aimed at creating employment and capacity building in communities and local governments.

In Indonesia, the social safety net (SSN) programs have not been effective. The implementation of the SSN has been not only late but also in disarray and full of controversy. The bureaucracy lacked the capacity to manage the programs. It was not only demoralized during the rapid progression of the crisis and political turmoil, but also lacked the experience in designing and implementing the program. The problem was also complicated when the issues were politicized during the year of political turbulence in 1998.

The SSN programs were spelled explicitly in the IMF reform package in June 1998—almost one full year after the crisis started in August 1997. In September 1998, the *BAPPENAS* (the national planning agency) announced that a nationwide SSN program was being developed. The announced program consisted of four elements: first, a food security program to guarantee the availability and affordability of food across society; second, a public works program to absorb the recently unemployed; third, a social protection program to maintain the standard of the health and education facilities and, fourth, the promotion of small and medium enterprises. The total cost of implementing the program was estimated at around Rp. 17 trillion, smaller than the earlier drafted amount of Rp. 25.5 trillion. The SSN was widely criticized as a total failure—not reaching the poor and corruption-tainted. The World Bank had to delay the disbursement of the loan to Indonesia, partly because of some concern that the fund was not properly used. In Early 1999, the *Bappenas* admitted that the disbursement of the SSN fund had been very slow, and that the program did not run smoothly. It was also reported that only 30-40 percent of the fund was actually used.

One reason behind the failure was that the SSN was not properly designed but was an uncoordinated collection of programs submitted by various government departments. Another reason was the fact that the *Bappenas* did not have the full control and authority to channel the fund. Each department received its limited and partial budget from the Ministry of Finance, and there was no guarantee that the fund they received would be spent on SSN activities. Some government officials blamed on the late result of the social impact assessment, although this was not a good excuse. The main problem was bad implementation. In fact, several NGOs have asked foreign donors to stop their assistance for SSN programs.

The case of failure of the formal SSN in Indonesia points to the worthiness of the informal SSNs. First, the extended family is the most important source of the natural safety nets. Additionally, the agricultural sector and the informal sector also provided the other forms of natural safety nets. Further, considering the fact that involuntary participation of women in the informal labor market has increased, the female member of the family could also be considered as the provider of natural SSN.

Malaysia has been lauded in the international development discourse for its success in providing public services, especially health and education. Many lower income households have enjoyed some government transfers and services, and have even become dependent on and continue to expect of government subsidies. Generally, therefore, the crisis and the consequent changes in government social expenditure tend to be felt more by lower-income households. In response to the crisis, the following specific programs and funds were designated for certain sectors or needy groups. Under the auspices of the Ministry of Health and the Ministry of Education, an additional RM200 million were set aside for rural social infrastructure facilities. The Fund for Food program, with a start up allocation of RM300 million, was established to increase food production through provision of low-interest loans to small farmers and Farmers' Associations. An additional allocation of RM100 million for the Hardcore Poverty Development Program was designed to provide loans to the hard-core poor for income-earning activities through Amanah Ikhtiar Malaysia (AIM). The Small-Scale Entrepreneur Fund (RM100 million) and the Economic Business Group Fund (RM150 million) were set up to provide assistance to petty traders, hawkers and small entrepreneurs—including women entrepreneurs—in urban areas. The Small and Medium-Scale Industry (SMI) Fund, with startup financing of RM750 million, was mandated to aid small and medium scale businesses in expanding production. Loans were mainly channeled for the purchase of equipment and machinery. The National Higher Education Fund, with an initial RM320 million allocation, is meant to provide financial assistance to students in local universities and colleges.

The implementation of these programs has, however, been considered disappointing. For example, the Fund for Food Program, which provides low-interest loans to farmers, saw only RM199 million—out of an allocated RM700 million—approved as loans. Similarly, the Special Scheme for Low and Medium Cost Housing approved only RM241 million (out of the available RM2,000 million), while the Small-Scale Entrepreneur Fund approved RM882 million out of RM1.5 billion available. Whatever the reasons, substantial proportions of the credit program allocations have not been taken up, when they could have generated the much-needed economic activity or boosted demand.

In the Philippines, there are two major formal social safety nets. One is the Social Security System (SSS) for the private sector and the other is the Government Service Insurance System (GSIS) for the public sector. Both systems have limited coverage and form. Only a small fraction of the systems will directly benefit people affected by the crisis as coverage for most people is limited to retirement. Benefits such as Sickness, Disability, and Hospitalization would not apply to the direct consequences of the crisis. The help that they have been able to provide to crisis-affected people is limited to loans, making funds available to displaced workers, educational, calamity and housing loans, and emergency loans.

The government has tapped the SSS some more for other types of loans. For example, the SSS was asked to work with the Guarantee Fund for Small and Medium Enterprises (GFSME) in providing funds for the newly created Enterprise Stabilization Guarantee Fund (ESGF). This is an additional burden on the SSS as its funds are not sufficient even to cover unemployment or other benefits for displaced workers or provide a more comprehensive health coverage for its members.

A safety net that can directly help the people affected by the crisis is the Public Employment Service Office (PESO) under the Department of Labor and Employment. The agency was set up to monitor worker layoffs at the local level, provide job placements, distribute information on job vacancies and available programs for retraining, entrepreneurship and credit/livelihood assistance. In 1998, the PESOs conducted job and livelihood fairs nationwide, placed 114,302 job applicants, and assisted 141,122 students through their career guidance programs.

In response to the social impact of the crisis, the Philippine government has also taken other direct measures. In February 1998, the government organized the National Economic Summit (NES) in its effort to coordinate inter-sectoral cooperative responses to the crisis. Four clusters of proposals were formed to prioritize and concretize the proposed programs. Two of the four clusters involve protecting jobs and enhancing productivity, and protecting the vulnerable groups. The government also provides rice assistance, especially in the drought-affected areas. It also provided training for 1,229 displaced workers and 10,774 scholarships in technical programs that would run for one to three years. However, the government's assistance was small-scale.

SUMMARY AND CONCLUSION

The present study is a synthesis of four country studies on the social impact of the 1997 Asian crisis in four countries in Southeast Asia—Thailand, Indonesia, Malaysia, and the Philippines. The crisis started in Thailand, and spread quickly to Indonesia, Malaysia and the Philippines. The causes of the crisis differ across the four countries. The major causes include rapid financial liberalization with problems of corporate and good governance, of prudential regulation, poor macroeconomic management, and other policy and institutional failures. Depending on their socio-economic and political backgrounds, the four countries have been affected by the crisis to a different degree. Thailand and Indonesia have been much harder hit compared to Malaysia and the Philippines.

The social impacts commonly addressed in the four country studies are unemployment and underemployment, poverty and income distribution, human development (education and health), and safety nets. Thailand and Indonesia encountered significantly increases in unemployment and underemployment. Malaysia was the least affected by unemployment; no underemployment was reported. In the Philippines, although unemployment went up slightly from the earlier trend, underemployment declined. During the crisis poverty in Thailand, Indonesia and Malaysia increased. The poverty incidence was not mentioned in the case of the Philippines. The crisis somewhat reduced income inequality in most countries since it affected the middle and higher income classes more. This does not mean, however, that the lower income classes were not affected.

In most countries, education was not significantly affected by the crisis, except in Thailand where the number of school dropouts was 126,000 in 1998 and school enrolment dropped 7.2 percent for private schools and 1.8 percent for public schools that same year. The Philippines also reported some increase in the dropout rate during the crisis. In Indonesia and Malaysia, the impact of the crisis on education was less dramatic or not significant. In the health sector, the most commonly found problems were the increase in the cost of imported medicine and medical equipment, and decreases in the health budget. In conclusion, the crisis has not affected the social sector in general, although some of the impacts may not be identifiable clearly or in the short run, while some of the problems have already been mitigated through government responses or by other social safety nets (SSNs).

In this study, SSNs are not clearly defined and most country studies apply the concept in the sense of social security and social welfare, except in the case of Indonesia where the SSN tends to be referred more strictly as emergency social funds which serve to protect individuals from falling below a defined minimum standard of living. By and large, the formal SSNs in the four countries are limited in coverage. In the case of Thailand, for example, only about 15 percent of the workforce are covered by the social security system and a handful of civil servants by the pension system. In Indonesia, SSNs (more strictly defined) have not been effective mainly because of poor implementation and partly due to corruption. In Malaysia, the basic social services which had been usually well provided were interrupted by the crisis and the consequent changes in the government expenditure tend to be felt more by the poor. The program measures by the government have been considered disappointing. The Philippine study mentions two major formal SSNs—the SSS and the GSIS. Both the systems have limited coverage. In addition, the PESO and women's increase labor participation, contributing to family income, were quoted as safety nets that have directly helped the people affected by the crisis.

In conclusion, the country studies have provided a broad review and examination of the causes and social consequences of the Asian financial crisis, as well as the existing SSNs and policy responses of the respective governments. Generally, the reviews of the social impact have been done in terms of "deviations" from the previous period rather than a rigorous identification of the social consequences of the financial crisis. The studies have not attempted to make economic evaluation of the social impact or social change during the crisis nor offered any qualitative assessment of the same. It has been, however, noted that the full impact of the crisis is difficult to assess for several major reasons: first, various concurrent developments complicate assessment of the actual impact; second, a great deal of relevant data has not been made available to the public; and, third, the available data may be suspect. Nevertheless, in the final analysis, the studies have informed that many government responses and actions have not been effective, or are not reaching the poor and the crisis-affected people, mainly because of poor management or implementation of the programs. Hence, much more needs to be done both in terms of further research on social impact of the crisis and actions to ensure that the crisis-affected and needy are well taken care of, not only by the government but by society, in general.

ENDNOTES

[1] In integrated financial markets, portfolio investors (e.g., mutual funds, hedge funds) tend to look upon a region or a sub-region as a single market. The problems confronted in one country may prompt them to pull out of the whole region/sub-region in a herd reaction (Islam 2000).

[2] A simplified chronology of the Asian crisis can be found in Arndt and Hill (1999: 5).

[3] More precisely, the floatation range was broadened.

[4] The unemployment rate used here is a percentage of the total labor force which includes the seasonally inactive labor force. The rate as a percentage of the "current labor force" exclusive of the seasonally inactive labor force will be slightly higher.

[5] In the Philippines, an employed person is considered underemployed if he/she is still actively looking for work. A person is "visibly underemployed" if he/she works less than 40 hours a week.

[6] The official poverty lines based on the Kakwani approach were 8,736 baht for 1996 and 10,932 baht for 1998 (NESDB 1999: 2).

[7] For definition, see Reddy (1998).

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