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Asian Recovery:

A Social Perspective

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I. Introduction

The East Asian region is still the fastest growing economic region in the world. This success has been attributed to market-oriented policies. The recent economic crisis, however, has shown that macroeconomic policies with an emphasis on economic growth are insufficient to protect the standards of living for vulnerable groups.

This paper highlights the importance of active government intervention in dealing with the crisis. It provides two case studies: the Republic of Korea (henceforth Korea) and Thailand. How did the economic crisis affect the standard of living in these two countries? How have their governments responded to the crisis? How are the two countries recovering from the crisis? This paper attempts to answer these questions with a focus on future government policies.

The standard of living is a multidimensional concept, encompassing several aspects of people's well-being. It is defined in terms of social indicators such as literacy rate, life expectancy at birth, unemployment, poverty, and so on. This paper is confined to standard of living indicators that are affected in the short run by economic shocks.

The paper analyzes the impact of the economic crisis on poverty, inequality, employment, and the labor force participation rate. Its objective is to determine the extent to which Korea and Thailand are recovering from the crisis, and to assess the roles of the two governments in dealing with the crisis.

II. Measuring the Impact of the Economic Crisis

The economic crisis affected Korea quite differently than it affected Thailand. The governments of the two countries also responded to the crisis differently. By understanding these differences, we can then discuss the two governments' performances in the wake of the crisis.

Measuring the structural changes that may have occurred during the crisis can isolate the impact of the crisis. Looking at the period just before and after the crisis cannot isolate the impact of the crisis. We have to look at how events during the crisis period deviated from long-term trends. To measure long-term trends, this study estimates a nonlinear regression model for each relevant variable and derives a crisis index measuring deviation of each variable.

If x_{it} measures the unemployment rate in the i th quarter and the t th year, where i varies from 1 to 4 (four quarters in a year) and t varies from 1 to 8 (from 1990 to 1997), then one can estimate the following model using data on 32 quarterly EAP surveys:

$$\ln(x_{it}) = \alpha_0 + \sum_{i=1}^4 \alpha_i D_{it} + \beta t + u_{it} \quad (1)$$

Where $\ln(x_{it})$ stands for the natural logarithm of x_{it} , D_{it} is the dummy variable with a value of 1 if the t th observation falls in the i th quarter, otherwise its value is zero. The variable u_{it} is the error term in the model, assumed to be distributed normally with a zero mean and constant variance.

Note that the sum of the four dummy variables ($D_{1t} + D_{2t} + D_{3t} + D_{4t}$) is equal to 1 for all values of t . This value means that the model cannot be estimated by the ordinary least squares, because of perfect multi-collinearity. To estimate the model, one needs at least one restriction on the coefficients of dummy variables. It is reasonable to assume that the total impact of seasonal fluctuations over the whole year is equal to zero. This value implies that $(\alpha_1 + \alpha_2 + \alpha_3 + \alpha_4)$ is equal to zero. This restriction is sufficient to estimate the model using the method of restricted least squares.

III. Seasonal Indices

Variable α_i measures the impact of the i th quarter on $\ln(x_{it})$ and therefore the impact of the i th quarter on x_{it} will be given by e^{α_i} , where e is the exponential constant. Thus, the seasonal index capturing the impact of the i th quarter can be defined as

$$s_i = 100 \times (e^{\alpha_i} - 1)$$

where i varies from 1 to 4. Thus, there are four seasonal indices, one for each quarter. Variable s_i is equal to zero when α_i is equal to zero. If all s_i are zero, it implies that the incidence of poverty is unaffected by seasonal fluctuations. Variable s_i is interpreted as the percentage of additional poverty that is generated in the i th quarter due to seasonal fluctuations. Note that s_i can be negative or positive. If s_i is equal to zero or near zero, then the impact of the i th season on poverty is negligible.

It is important to know whether the magnitude of s_i is zero or significantly different from zero. If it is significantly different from zero, one can say that the i th quarter has an impact on poverty. To measure the magnitude of s_i one needs to compute the standard error of s_i , which gives a t value equal to s_i divided by the standard error. If the absolute t value is equal to or greater than 2, one can conclude that the seasonal impact of the i th quarter is significant. Thus, seasonal indices can help evaluate the impact of seasonal influences on poverty incidence.

Seasonal index s_i can help compute a seasonally adjusted series. If x_{it} is the seasonally unadjusted series, then the seasonally adjusted series is obtained as

$$x^*_{it} = x_{it} (1 + s_i/100)^{-1}$$

for all values of t .

IV. Crisis Indices

It may be assumed that Korea's economic crisis began in 1998. The objective of the study is to determine whether a significant structural change occurred between 1997 and 2000. To determine this, the model was fitted on the basis of 32 quarterly observations from 1990 to 1997. Using the fitted model, the forecast of expected values was computed for each quarter beginning from 1998. If x_{i98} and \hat{x}_{i98} are the actual and expected values of poverty incidence in the i th quarter of 1998, then the crisis index c_i (for the i th quarter of 1998) is defined as

$$c_i = 100 \times (x_{i98}/\hat{x}_{i98} - 1)$$

where i varies from 1 to 4. Thus, there is one index for each quarter of 1998. Variable c_i represents the percentage of additional poverty in the i th quarter of 1998 as a result of the economic crisis. If the economic crisis had not occurred, then given past trends and seasonal influences, poverty incidence would have been lower by c_i percent in the i th quarter of 1998. Variable c_i was also computed for each quarter of 1999 and the first quarter of 2000, to yield 9 crisis indices.

Variable c_i measures the impact of the crisis after taking into account long-term trends and seasonal influences. If the index c_i were zero, it would mean that the crisis had no impact on poverty incidence.

To test whether the crisis index is significantly different from zero, one needs to compute the standard errors of the crisis index, yielding a t value equal to the crisis index divided by its standard error.

V. Trend Growth Rate

To measure the overall long-term trend, it would suffice to compute the growth rate in x_{it} after controlling for seasonal influences. If r is the annual growth rate, then model (1) gives

$$\text{Log}(1 + r) = \beta$$

which yields

$$r = (e^\beta - 1)$$

If x_{it} measures poverty incidence, then the long-term growth rate r measures the average quarterly rate at which poverty incidence changed in the pre-crisis period from 1990 to 1997. To determine whether the trend is statistically significant, one needs to compute the t value for r . Again if the absolute value of the t value is equal to 2 or more, one concludes that there is a significant long-term trend in poverty incidence.

VI. Impact of Crisis on Labor Markets

A. Korea

Korea's employment rate increased steadily over the pre-crisis period between 1990 and 1997. Employment in Korea in the first quarter of 1990 was 16.91 million, increasing to 21.07 million in the fourth quarter of 1997. The nonlinear trend model was fitted to the quarterly employment data from 1990 to 1997. The trend index, presented in Table 1, is 0.5 with a t value of 23.8, which means that employment increased at a quarterly rate of 0.5 percent. Kakwani (2000) noted that per capita real GDP in Korea increased at a quarterly rate of 1.5 percent between 1990 and 1997, yielding an

Table 1. Seasonal, Trend, and Crisis Indices for Employment Rate, Unemployment Rate, and Labor Force Participation Rate

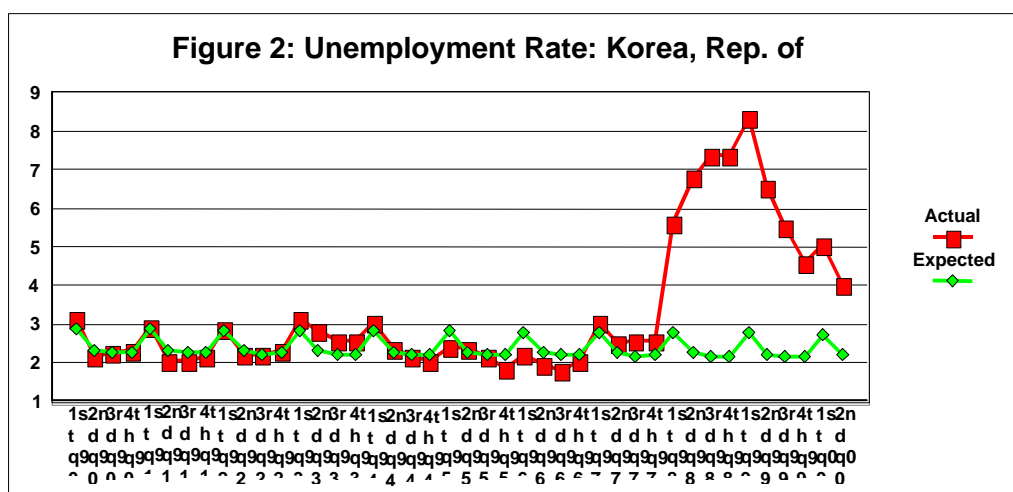
	Employment Rate	Unemployment Rate	Labor Force Participation Rate
Seasonal index			
quarter1	-3.7	17.4	-3.3
t_value	-10.1	4.6	-11.6
quarter2	1.8	-3.9	1.8
t_value	5.0	-1.0	6.4
quarter3	1.5	-7.0	1.4
t_value	4.1	-1.9	4.8
quarter4	0.4	-6.5	0.1
t_value	1.1	-1.7	0.4
Trend index			
	0.5	-0.1	0.1
t_value	23.8	-0.5	6.7
Crisis indices			
1st quarter98	-4.3	70.7	-1.5
t_value	-3.3	5.2	-1.4
2nd quarter98	-8.0	111.2	-3.4
t_value	-6.1	8.1	-3.3
3rd quarter 98	-9.2	122.3	-3.8
t_value	-7.1	8.9	-3.7
4th quarter 98	-9.3	121.6	-3.7
t_Value	-7.1	8.9	-3.6
1st quarter 99	-9.9	110.6	-3.6
t_Value	-7.4	7.9	-3.4
2nd quarter 99	-9.3	107.7	-4.8
t_Value	-7.0	7.7	-4.5
3rd quarter 99	-7.3	93.9	-4.1
t_Value	-5.4	6.7	-3.9
4th quarter 99	-5.9	74.8	-3.0
t_Value	-4.4	5.3	-2.8
1st quarter 00	-5.3	61.0	-2.3
t_Value	-3.9	4.2	-2.2
2nd quarter 00	-7.6	58.8	-5.2
t_Value	-5.6	4.1	-4.8
R-square	96.4	45.3	88.4

How has the economic crisis affected the employment rate? Figure 1 provides a picture of the impact of the crisis on employment. It depicts actual and expected employment levels. The expected employment level is calculated from a regression model fitted to the pre-crisis period; thus it gives the employment level that would have resulted if the crisis had not occurred. The deviation between actual and expected employment levels measures the impact of the economic crisis.

It can be seen from Figure 1 that the model changes structurally during the crisis period. Actual employment is much lower than expected employment. In Table 1, the value of the crisis index in the first quarter of 1998 is -4.3 with a t value of -3.3 . Since the magnitude of the t value is much larger

than 2, it implies that the impact of the crisis on employment is highly significant. If the crisis had not occurred, the employment level would have been 4.3 percent higher. The impact of the crisis became more severe in subsequent quarters. The crisis contributed to an employment reduction of 9.9 percent in the first quarter of 1999. The employment level, however, began to increase in the subsequent quarters. The crisis index was -5.3 in the first quarter of 2000, still significant as shown by its t value of -3.9. In the second quarter of 2000 the crisis index worsened, reaching -7.6 with a t value of -5.6. These results show that the adverse impact of the crisis has bottomed out, but the crisis is not over. The economy has not yet returned to the pre-crisis trend path.

Korea's unemployment rate was low until the onset of the economic crisis. It increased from 3.1 percent in the first quarter of 1997 to 5.6 percent in the first quarter of 1998, and then to 8.4 percent in the first quarter of 1999. Since then, the rate has declined monotonically, reaching 4 percent in the second quarter of 2000 (Table 1). Figure 2 shows that the crisis severely impacted the unemployment rate. The crisis index in the first quarter of 1998 was 70.7 with a t value of 5.2. If the crisis had not occurred, the unemployment rate would have been 70.7 percent lower. The crisis index continued to increase, reaching 122.3 in the third quarter of 1998. Since then the crisis index has declined, reaching 58.8 in the second quarter of 2000 with a t value of 4.1, still significant. Although Korea achieved a strong recovery in its labor market, the crisis' adverse impact continues.



When there is an economic downturn, a large proportion of the labor force drops out of the labor market. This phenomenon is called the “discouraged workers effect.” It will be interesting to see how the crisis contributed to generating discouraged workers. This issue can be analyzed by measuring the crisis’ impact on the labor force participation (LFP) rate.

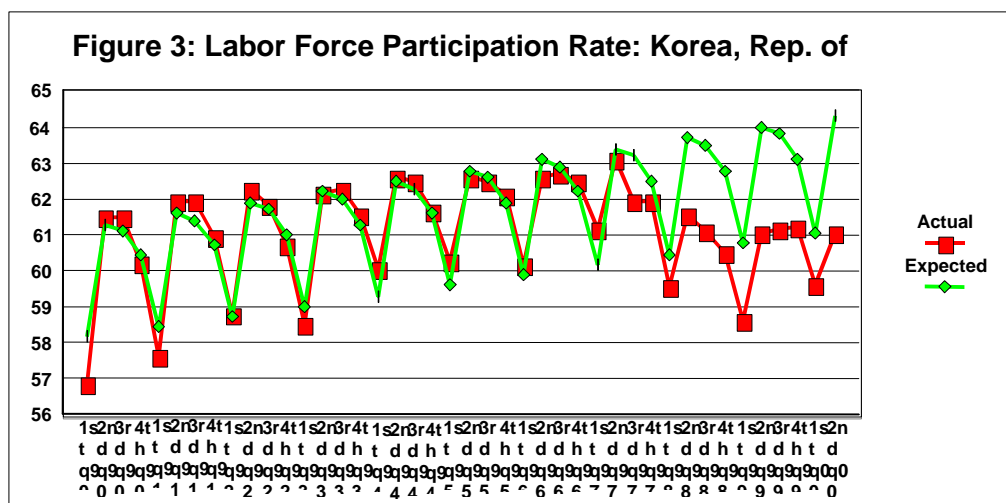


Figure 3 depicts the actual and expected LFP rates. It is evident that a large gap exists between the actual and expected labor force participation rates. The larger the gap, the greater the impact of the crisis.

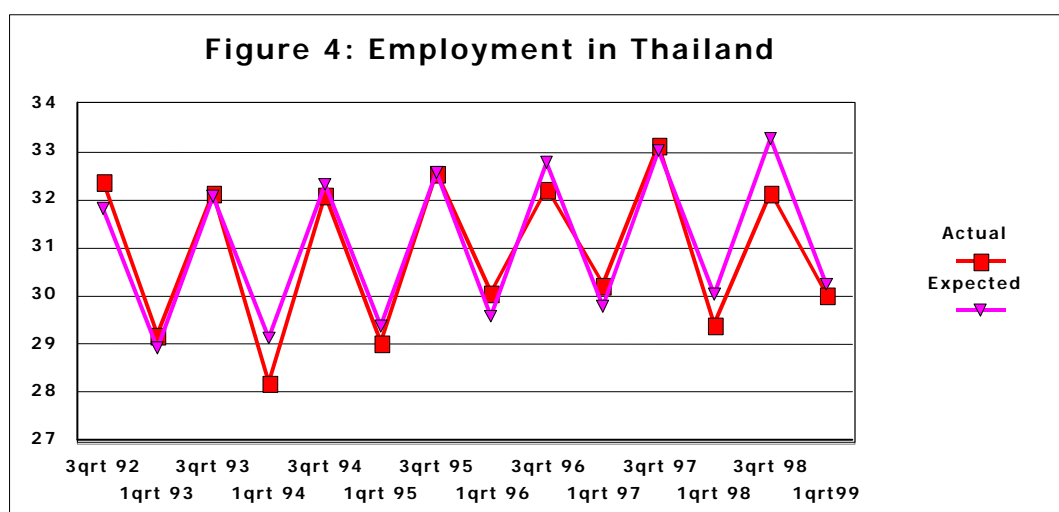
The crisis index in Table 1 shows that the LFP rate was not significantly affected by the crisis in the first quarter of 1998 as indicated by its t value of -1.4 . The impact of the crisis, however, became significant in subsequent quarters. The crisis contributed to a 3.4 percent reduction in the LFP rate in the second quarter of 1998. As the crisis worsened, the index’s magnitude became larger, reaching 4.8 percent in the second quarter of 1999. If the discouraged workers had not withdrawn from the labor force, the impact of the crisis would have been much worse.

B. Thailand

As shown in Table 2, employment in Thailand increased an *annual* rate of 0.7 percent before the onset of the crisis, whereas employment in Korea grew at a *quarterly* rate of 0.5 percent (an annual rate of approximately 2 percent). Thus, employment growth in Korea has been faster than in Thailand. The nature of employment is also very different in the two countries. Compared to Korea,

employment in the Thai labor market is highly seasonal; higher in the wet season (the third quarters) and lower in the dry season (the first quarters, Figure 4). The seasonal index shows that average employment in the wet season is 9.9 percent higher than in the dry season. This overall employment pattern in Thailand emerges because its economic structure is based on the agricultural sector, which still generates more than 50 percent of total employment. As agricultural work depends on seasons, employment tends to fluctuate greatly.

Unlike in Korea, employment in Thailand continued to decline in 1999. The 1999 decline is due partly to the seasonal effect and partly to the crisis. As data for 1999 is solely based on the dry season, a weak demand for labor in 1999 partly reflects the seasonal effect during agriculture's off-season. Also, a decline in employment in 1999 is partly due to the adverse effect of the crisis. Since the crisis index for employment is statistically insignificant, one may conclude that the decline in employment is mainly due to seasonal factors.

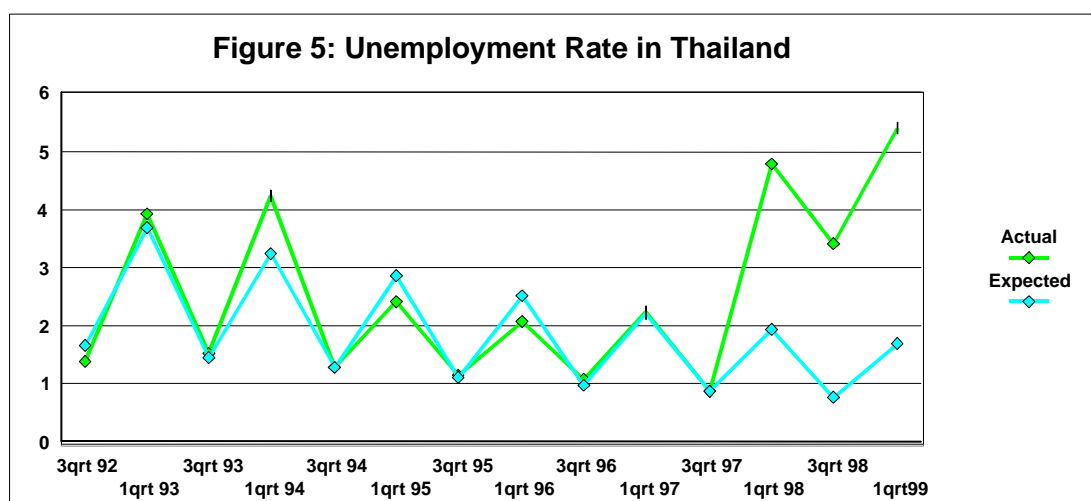


The crisis has led to a substantial increase in the unemployment rate, which jumped from 2.3 percent in the 1997 dry season to 4.8 percent in the 1998 dry season and then to 5.4 percent in the 1999 dry season. Figure 5 shows that during the crisis period, a wide gap between actual and expected unemployment measures the impact of the crisis. This gap does not seem to be narrowing. Thus, the crisis in Thailand is showing no signs of abating.

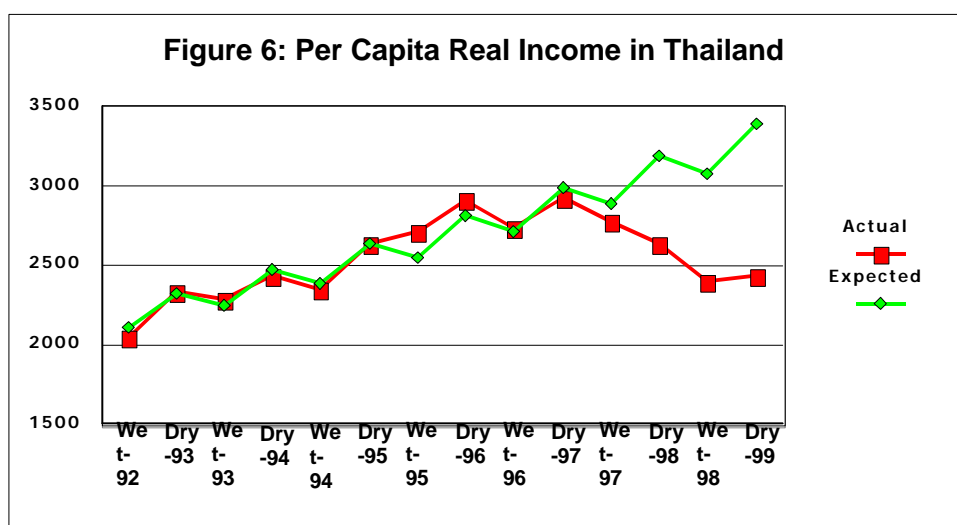
Table 2. Seasonal, Trend, and Crisis Indices for Employment Rate, Unemployment Rate, Labor Force Participation Rate, and Per Capita Real Income: Thailand

Quarter	Employment Rate	Unemployment Rate	Labor Force Participation Rate	Per Capita Real Income
3qrt 92	32.4	1.4	56.9	2045.0
1qrt 93	29.2	3.9	54.3	2339.0
3qrt 93	32.2	1.5	56.0	2289.0
1qrt 94	28.2	4.2	52.6	2442.0
3qrt 94	32.1	1.3	54.8	2351.0
1qrt 95	29.1	2.4	53.0	2644.0
3qrt 95	32.6	1.1	55.5	2709.0
1qrt 96	30.1	2.1	53.4	2909.0
3qrt 96	32.2	1.1	54.5	2735.0
1qrt 97	30.3	2.3	53.0	2930.0
3qrt 97	33.2	0.9	55.3	2780.0
1qrt 98	29.4	4.8	52.7	2633.0
3qrt 98	32.1	3.4	54.5	2402.0
1qrt99	30.0	5.4	53.3	2443.0
Seasonal index	9.9	-86.8	4.1	-16.6
t_Value	10.0	-10.3	6.2	-7.9
Trend index	0.7	-12.9	-0.5	6.4
t_Value	2.4	-4.8	-2.4	9.6
Crisis index 1st quarter98	-2.1	90.3	0.5	-17.0
t_Value	-1.0	5.2	0.4	-3.9
Crisis index 2st quarter98	-3.5	149.9	-0.2	-21.1
t_Value	-1.7	8.5	-0.1	-4.8
Crisis index 1st quarter99	-0.8	115.3	2.1	-32.0
t_Value	-0.3	6.2	1.4	-7.0
R-square	92.2	93.5	83.1	94.5

Note: Figures are rounded to the nearest 0.1 decimal place.



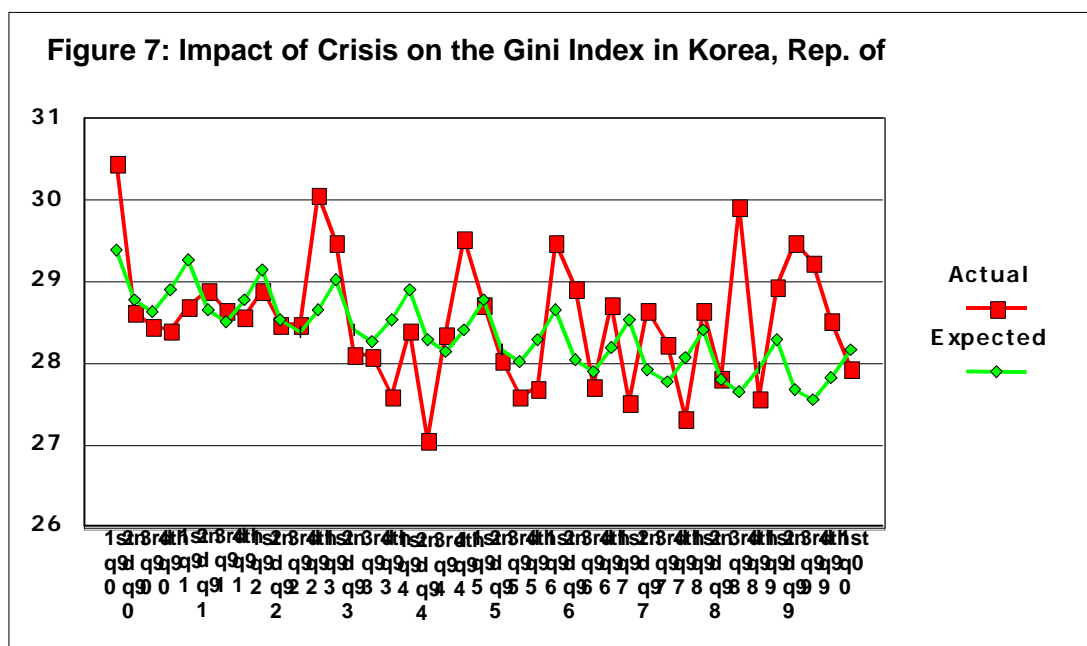
The most disturbing feature of the crisis in Thailand is that the figures showing declining employment in Thailand may only portray a part of the crisis' impact on Thailand's economy. The crisis contributed to a substantial reduction in real income without creating a high level of unemployment. As indicated by the values of the crisis index in Table 2, the crisis has contributed to a 17 percent reduction in per earner real income in the first quarter of 1998. The crisis continued to worsen in the first quarter of 1999, contributing to a 32 percent reduction in per earner income. The severe impact of the crisis is also shown by Figure 6, which suggests an increasing gap between actual and expected per capita real income. Thus the impact of the crisis on people's standard of living is stronger than indicated by the unemployment rate.



This study also found that the economic crisis contributed to a huge decline in the real incomes of people in the informal sector. From these observations, one may argue that the informal sector provides a safety net to the people faced with the crisis because they can always find work at lower wages. This policy is unsuitable in view of the decline in real income of the people in the informal sector. Many of these people may have already been pushed in to severe poverty. The labor market cannot protect them from falling into deeper poverty. Government intervention may be necessary to protect these people.

VII. Inequality

Figure 7 reveals that the aggregate inequality in Korea was low in the 1990s. The Gini index fluctuated between 27 percent and 30 percent. There also has been a declining trend in inequality. The trend index in Table 3 shows that prior to the crisis, inequality declined at a quarterly rate of 0.1 percent, which is statistically significant. Unfortunately, the gradual decline in inequality was interrupted by the crisis in 1998. The crisis contributed to an increase in inequality by 7.9 percent in the third quarter of 1998, which is significant at the 1 percent significance level. The crisis' impact is uneven. In the first quarter of 2000, the impact of the crisis is insignificant. Thus, we conclude that some signs of recovery concerning inequality are becoming evident.



Now turn to Thailand. Compared to Korea, inequality in Thailand has been high. The Gini index was around 48.5 percent in the pre-crisis period. The welfare share of the top 20 percent of the population is much more than two and a half times the population share, whereas the welfare share of the bottom 20 percent is only one fourth of the population share. On the whole, income distribution in Thailand is unequal.

As can be seen from Table 4, inequality worsened after the crisis began. The Gini index increased from 48 percent in 1996 to 49 percent in 1998 and further to 51 percent in 1999. The crisis contributed to a decline in the share of the bottom 20 percent of the population by about 11 percent in 1999.

Table 3. **Seasonal, Trend, and Crisis Indices for Inequality of Per Capita Welfare by Quintile: Korea**

	Gini Index		Quintile Shares			
	1	2	3	4	5	
Seasonal Index						
quarter1	1.4	-1.8	-1.0	-0.3	0.4	0.7
t_value	1.9	-3.5	-2.4	-0.7	1.6	1.4
quarter2	-0.6	0.8	0.6	-0.0	-0.4	-0.2
t_value	-0.8	1.7	1.5	-0.0	-1.6	-0.4
quarter3	-1.0	-0.2	0.2	0.6	1.1	-0.9
t_value	-1.3	-0.4	0.4	1.6	4.2	-1.9
quarter4	0.1	1.1	0.2	-0.3	-1.0	0.4
t_value	0.2	2.2	0.4	-0.9	-4.1	0.8
Trend index	-0.1	0.1	0.1	0.0	0.0	-0.1
t_value	-2.3	1.6	2.5	2.0	1.5	-2.4
Crisis indices						
1st quarter98	0.9	-1.7	0.0	-0.1	0.2	0.4
t_value	0.3	-0.9	0.0	-0.0	0.2	0.2
2nd quarter98	0.1	-4.1	0.8	1.6	1.7	-1.0
t_value	0.0	-2.2	0.5	1.1	1.8	-0.6
3rd quarter 98	7.9	-8.2	-4.4	-1.6	0.4	4.0
t_value	2.9	-4.5	-2.9	-1.2	0.4	2.3
4th quarter 98	-1.3	-0.0	0.4	1.2	0.7	-1.1
t_Value	-0.5	-0.0	0.3	0.8	0.8	-0.6
1st quarter 99	2.4	-3.1	-2.2	-0.2	1.1	1.0
t_Value	0.9	-1.7	-1.4	-0.1	1.2	0.6
2nd quarter 99	6.3	-5.0	-3.2	-1.6	-0.9	3.5
t_Value	2.3	-2.7	-2.1	-1.1	-0.9	2.0
3rd quarter 99	5.9	-5.4	-3.5	-1.2	0.3	2.9
t_Value	2.1	-2.9	-2.3	-0.8	0.3	1.6
4th quarter 99	2.5	-2.8	-1.5	-0.6	0.7	1.1
t_Value	0.9	-1.5	-0.9	-0.4	0.8	0.6
1st quarter 00	-0.8	0.0	0.1	0.4	0.8	-0.7
t_Value	-0.3	0.0	0.1	0.2	0.9	-0.4
R-square	28.3	41.1	33.8	20.2	53.6	28.4

Table 4. Inequality in Thailand

Period	Gini Index	Quintile Shares				
		1	2	3	4	5
88	48.1	5.2	9.0	13.4	21.1	51.2
90	48.1	4.9	8.4	12.7	19.9	54.1
92	49.9	4.5	7.9	12.2	19.8	55.6
94	48.6	4.6	8.3	12.7	20.3	54.1
96	47.7	4.8	8.5	12.9	20.5	53.3
98	48.6	4.6	8.3	12.6	20.2	54.2
99	50.9	4.2	7.7	12.1	19.8	56.2
Crisis index98	1.9	-1.8	-1.2	-1.8	-1.1	1.1
Crisis index99	6.8	-10.9	-8.2	-5.7	-2.8	4.5

VIII. Incidence of Poverty

Korea's poverty level cannot be compared with Thailand's because we have used country-specific poverty lines, reflecting the average standard of living in each country. Moreover, poverty incidence in Korea is measured on the basis of per capita consumption, whereas in Thailand it is measured by per capita income. Since the average saving rate in Korea is very high, it is expected that consumption-based poverty will be much higher than income-based poverty. Thus we focus only on the poverty trends and the crisis' impact on poverty in the two countries.

Before the onset of the crisis, poverty incidence declined rapidly in both Korea and Thailand. Korea's poverty estimates could be obtained quarterly, whereas Thailand's estimates could be computed every two years. In Korea, the percentage of poor declined from 41.1 percent in the first quarter of 1990 to 7 percent in the first quarter of 1997. In Thailand, the percentage of poor declined from 28.7 percent in 1990 to 11.4 percent in 1996. Looking at these estimates we can probably say that Korea achieved a more rapid reduction in poverty than Thailand. This reduction happened despite the fact that Thailand had a higher economic growth rate than Korea in the 1990s. Thus, Korea's economic growth has been more effective than Thailand's in reducing poverty.

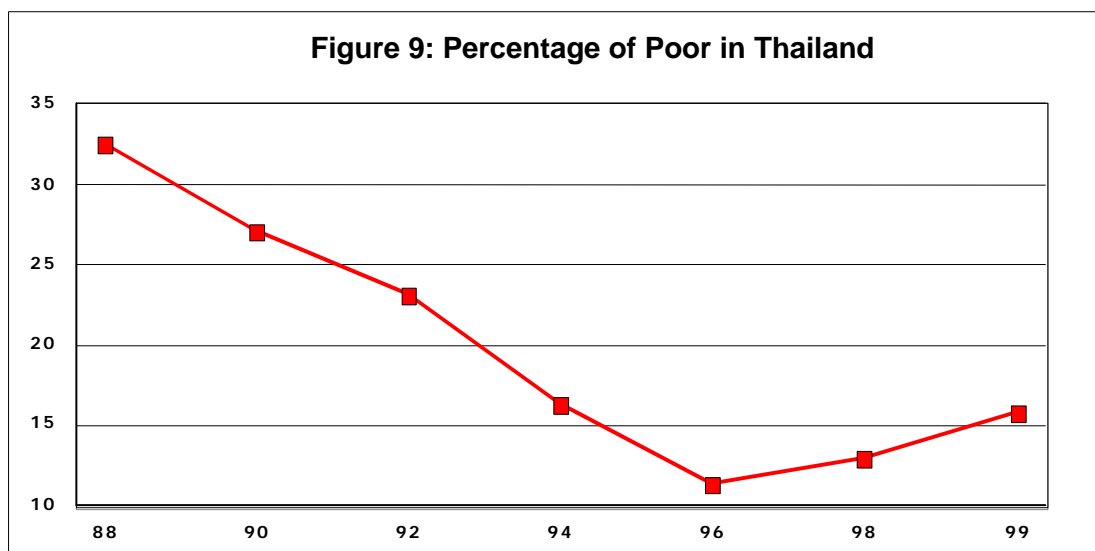
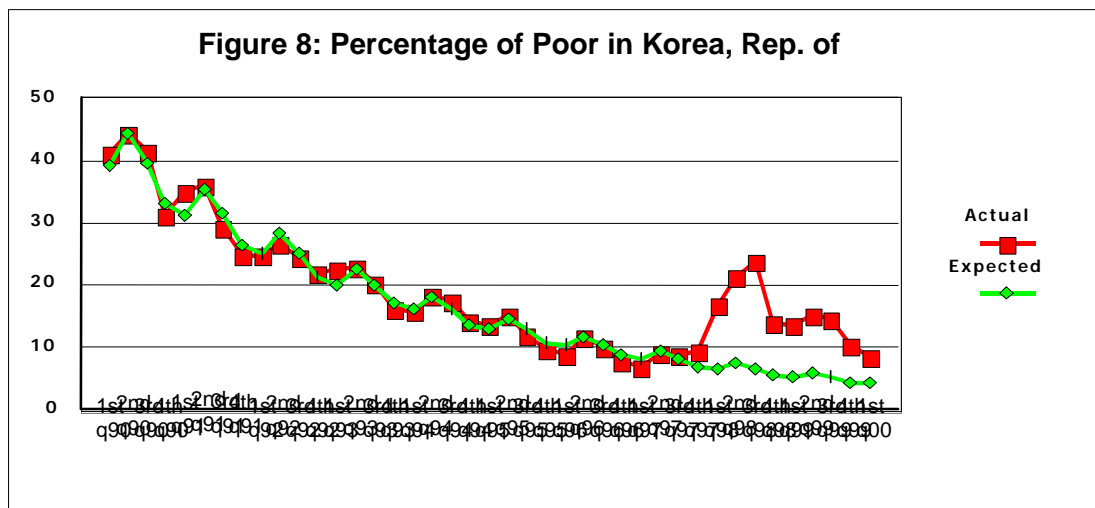
Table 5. Crisis Index for Poverty in Korea

Crisis index	Percentage of Poor	Poverty Gap	Severity of Poverty
1st quarter98	94.8	110.6	127.4
t_value	8.9	8.2	8.1
2nd quarter98	104.8	136.3	161.2
t_value	9.8	10.0	10.2
3rd quarter 98	128.4	157.8	180.7
t_value	12.0	11.6	11.4
4th quarter 98	91.7	112.8	135.3
t_Value	8.6	8.3	8.6
1st quarter 99	95.8	111.6	124.9
t_Value	8.8	8.0	7.7
2nd quarter 99	94.4	120.9	141.6
t_Value	8.6	8.7	8.8
3rd quarter 99	94.9	116.5	131.9
t_Value	8.7	8.4	8.2
4th quarter99	83.7	105.2	124.6
t_Value	7.7	7.6	7.7
1st quarter00	68.8	72.4	76.9
t_Value	6.1	5.1	4.6

In Korea, the most severe impact of the crisis hit in the first quarter of 1998, when the percentage of poor shot up to 17 percent, reaching the maximum value of 23.9 percent in the third quarter of 1998. Then the recovery period began; the percentage of poor dropped to 13.9 percent in the fourth quarter of 1998. Then there was a slight increase in poverty incidence in the second quarter of 1999, explained by seasonal factors. Poverty incidence is generally highest in the second quarter of every year. The percentage of poor has now declined to 8.4 percent in the first quarter of 2000, a slightly higher level than in the first quarter of 1997. Thus, poverty incidence in Korea is fast approaching the pre-crisis level. These results suggest that the crisis' adverse impact has bottomed out and a substantial improvement in poverty incidence is evident.

Can we then conclude that the crisis is over for Korea? A rapid reduction in poverty is a necessary but insufficient condition for the crisis to end. The economic crisis will end only if we can establish that the economy has gone back to its pre-crisis trend. To determine whether it has, we calculated the poverty incidence forecasts from the trend model, also taking account of season affects. Figure 8 provides a visual picture of the impact of the crisis. If the crisis had not occurred, then what would have been the poverty incidence in the post-crisis period? The results show that the percentage of poor in the first quarter of 2000 would have been only 4.21 percent, whereas the actual percentage of poor is 8.4 percent. This large deviation of actual

from expected poverty incidence indicates that the crisis' adverse impact persists. This persistence is also indicated by the crisis index, given in Table 5, which has a value of 68.8 with a t value of 6.1 in the first quarter of 2000. It implies that the impact of the crisis is still significant, contributing to an increase in the percentage of poor by 68.8 percent. The economic crisis in Korea is not yet over, but the progress toward a recovery is rapid.



It can be seen in Table 6 and Figure 9 that the percentage of poor in Thailand increased from 12.9 percent in 1998 to 15.9 percent in 1999. Poverty incidence in Thailand increased in 1999. As such, the crisis has not bottomed out. There is no evidence of recovery. This lack of a recovery should be of serious concern to the Thai government. In contrast, poverty incidence in Korea declined rapidly between 1998 and 1999. Subsequent sections compare Korea's rapid recovery to Thailand's.

Table 6. **Percentage of Poor by Area in Thailand**

Period	Municipal areas	Sanitary districts	Villages	Whole Kingdom
88	8	21.8	40.3	32.6
90	6.9	18.2	33.8	27.2
92	3.6	12.7	29.7	23.2
94	2.4	9.6	21.2	16.3
96	1.6	5.8	14.9	11.4
98	1.4	7.5	17.3	12.9
99	1.3	8.8	21.5	15.9
Crisis index98	4.5	52.5	31.5	29.6
Crisis index99	8.2	93.3	73.6	69.5

IX. Welfare Program and Government Response to the Crisis: Korea

A. Social Assistance System

Korea's social assistance system has two components: (i) public assistance and (ii) social welfare services.

Public assistance includes livelihood protection, medical aid, veteran relief, and disaster relief. Livelihood protection is a regular welfare program providing services and financial assistance to needy people with low incomes. Eligibility is determined by a means test based on current income and asset value. Prior to the crisis, the 1997 program targeted 1.4 million people for assistance. When poverty incidence began to worsen, the government expanded the program to cover an additional 310,000 people in 1998. The income test was maintained, while the asset test was relaxed to accommodate the newly unemployed. The supplementary budget of April 1999 envisaged the program's expansion to an additional 800,000 beneficiaries. In addition, the government provided living cost support, including financial aid for education, medical protection, and food for school children (Moon, Lee, and Yoo 1999).

B. Unemployment Insurance

Korea introduced its unemployment insurance program in 1995. The program's objective was to provide insurance for private-sector workers who either lose their jobs or become too sick to continue working. In December 1997 there were 4.3 million registered contributors, firms with more than 30 employees. In 1998, the program expanded to cover firms with more than five employees as well as temporary and daily workers.

It is commendable that the unemployment insurance program expanded rapidly at a time when Korea was facing its worst recession. The program provided protection to 5.3 million workers by December 1998, covering more than 27 percent of the employed labor force. The number of beneficiaries rose even faster due to both increased layoffs and expanded coverage. According to the Ministry of Labor's statistics, the government paid a total of 0.8 trillion Won to 441,000 people in unemployment benefits.

C. Public Works

Since the majority of the unemployed in Korea could not benefit from the unemployment insurance program, the government introduced a temporary public works program for poor unemployed workers who were ineligible to receive unemployment benefits. In May 1998, the program enrolled 76,000 workers and by February 1998 enrollment increased to 437,000 workers.

The public works program made a substantial contribution to income maintenance for Korea's jobless. During the first quarter of 1999, the number of registered unemployed averaged 1.75 million, of which public works employees averaged 0.4 million.

Poverty trends observed in the previous section represent the net outcome of considerable government intervention. The crisis' impact would have been worse without the government's social protection measures. Korea is fast recovering from the crisis. This recovery is happening because of the government's timely intervention. Macroeconomic management alone would not have brought such a quick recovery to the social sector.

X. Government Performance in Alleviating Poverty: Thailand

There are many poverty alleviation programs in Thailand. These programs fall into two categories. One is the targeted programs aimed at assisting the poor. Among these targeted programs one can distinguish between pure transfer programs and income generation programs. Pure transfer

programs can be further subdivided into two categories: (i) cash transfers and (ii) in-kind transfers. The main in-kind transfer targeted to the poor is the low-income health card administered by the Ministry of Public Health. About 20 percent of the population receives low-income cards. Other in-kind transfer programs include a school lunch program that provides meals to children from poor families at the preschool and primary levels.

The major difficulty with these programs is their coverage. They cover very few targeted groups and their benefits are very small. In 1995, the total money spent on all the targeted programs was 8,879 million Baht, only 1.3 percent of the government's total expenditure.

Cash transfer programs should target the poor. If this principle is followed, then the greatest portion of money should be transferred to the provinces, which have the most severe poverty. Actual practice does not target the provinces. According to the World Bank's (1996) estimates, in 1995 the northeastern region accounted for 42 percent of the total transfer, compared with its share of almost 60 percent of the poor (1992 estimates). The central region, which had less than 10 percent of the poor, received almost a quarter of the total transfer. These figures suggest that cash transfers are not well targeted.

Among the income generation programs, the most significant one is the loan scheme operated by the Community Development Department (CDD) of the Ministry of Interior (MOI). It provides interest free loans to poor households for investments in income generating activities. An amount of 280,000 Baht is given to each village. A household with an income of 5,000 Baht per person per year can borrow without interest. This program has not worked well. About a third of the assisted households incurred losses (Subbarao and Rudra 1996).

A low-income health care card is given to people whose income are lower than 2,000 Baht per month per family or in the case of single people, lower than 1,500 Baht per month. The main drawback of this scheme is that it does not distinguish between large and small families. For instance, families with two members have the same threshold as families with eight members. To make this scheme equitable the eligibility threshold income should be sensitive to the family's size. Large families require more income in order to enjoy the same level of welfare as small families.

The monetary value of the low-income card is low, which means that the poor receive inadequate health care. It is not surprising to find that only one third of low-income cardholders actually use the card.

Since this scheme is a social assistance scheme for low-income households, it is expected that the regions with the largest number of poor receive a larger budget. Unfortunately, this practice is not in effect. The poorest northeastern region receives a lower budget than the richer central region. A large number of poor families receive no benefits under this scheme.

Low levels of public spending on various poverty alleviation programs, along with inefficient targeting, have little impact on poverty incidence. Government organizations run a large number of programs, and each organization uses different methods of targeting the poor. This lack of standard criteria makes it difficult to assess the programs' impact on poverty.

XI. Lessons Learned from the Crisis

Industrialized countries have evolved social security systems that provide a safety net to people on a permanent basis. By contrast developing countries, even the fast-growing Southeast Asian countries, lack social security systems that provide an adequate safety net for their citizens. When the economic crisis hit the Southeast Asian countries, their governments did not know how to help the people who were severely affected. Many governments resorted to ad hoc measures, which did little to help.

In most developing countries, family and friends provide informal safety nets. These safety nets can be quite effective during normal times. When there is a widespread economic crisis, the informal safety net system breaks down. Moreover, with increasing prosperity brought by rapid economic growth, traditional family values are disappearing. The effectiveness of informal safety nets is diminishing. Governments will need to play an active role in providing safety nets on a permanent basis.

Prior to the crisis, Korea had some welfare programs in place. When the crisis hit, the government responded by expanding the existing programs to provide timely help to the people most affected by the crisis. Consequently, the social sector in Korea has recovered rapidly. The latest figures show that the unemployment rate fell to 3.7 percent in August 2000.

Thailand's story is different. Unemployment is still increasing and poverty incidence increased to almost 16 percent in 1999. Since Thailand had no effective safety net in place when the crisis hit, the government could not implement any effective policy to help people who were affected by the crisis. Although the government of Thailand acquired money from international donor agencies such as the World Bank and the Asian Development Bank, it could not channel this money to the most needy people. The government's ad hoc policies have helped little during the crisis.

Even during good economic times when there is no widespread crisis, some people suffer hardships. Economic growth alone cannot provide safety nets to people when they are in crisis. It is important that the governments of developing countries provide a system of safety nets on a permanent basis so that they do not have to resort to ad hoc measures when the country is hit by crisis.

Although it is generally believed that developing countries cannot afford a permanent safety net program, a well-targeted system based on a well-specified poverty line can at least target the ultra-poor, and possibly expand when the country faces a crisis situation. After all, the Korean livelihood protection program is not that costly; the Korean government utilized the welfare delivery system to provide timely assistance to people who became victims of the economic crisis.

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