

Financial Crisis and Social Change in South East Asia

Paper for the Seminar on “Veranstaltung Finanzmärkte und Entwicklung”, Vienna, Austria September 18, 2007.
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Financial Crisis and Social Change in East and Southeast Asia [\[1\]](#)

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Crisis – Dangers and Opportunities

- What caused the Crisis? A combination of several external and internal structural factors:
- Overproduction
- Forced deregulation of financial and monetary control
- Revaluation of the Yen and devaluation of the Yuan
- Growing self-reliance of domestic business
- 'Victory' of workers and middle class to increase wages and decrease profit margins

Under-regulation

- Unlike all previous financial crises this time not caused by excessive government spending/unmanageable debt
- Rooted in the private sector (a market failure to use a neo-classical term)
- Opportunities:
- Led to a crisis of neo-liberal globalization
- A crisis of legitimacy of the IFIs
- Will lead to a new international financial architecture and renovated national economic policy-making

2) “Creative destruction” or Robbery in Open Daylight!

- Cynical view – it is in fact good for the economy – will strengthen the remaining firms and credit institutions (the winners take it all)
- In reality:
- Korea 40 % of the shares of biggest chaebols foreign ownership/before 0
- Thailand approx 30 % of the shares of biggest companies foreign ownership

3) Strings and Conditionalities of the IFIs

- Several amendments were made over the years to the 'one-size-fits all approach – shows the lack of understanding, preparedness and responsiveness of the IFIs – very controversial
- Opening up for foreign ownership of shares in local companies and finance
- Abolishing all restrictions on FDI
- Tight fiscal and monetary policies without consideration for social consequences
- No control of financial flows
- Imposition of full guarantees to creditors
- Rapid structural reform measures – stringent financial standards and corporate restructuring
- Privatization of SOEs, education and health etc

4) De-regulating Labor Markets/Targetting the Poor And Avoiding Social Chaos

- Abolishing contract-based regular employment
- Easier to hire and fire (Flexibility)
- Weakening of trade unions – enterprise unions
- No minimum-wage (or artificially low if necessary)
- Fear of social chaos led to introduction of ministries of social welfare in K/T – could put investments in jeopardy but in accordance with "the market-friendly approach" – targetted means-tested social policy (No granting of entitlements) – a way to control the outcome of the crisis
- Tripartite negotiations

5) Introducing Flexibility in Labor Markets/Impacts

- Reforms of labor laws – governments develop harmonious industrial relations
- Reducing employment protection
- Allow for collective dismissals
- No limits on work hours
- More power to management in terms of outsourcing and use of irregular workers
- Lowering wages to become competitive

- Korea and Thailand have the longest work hours in the world – lowest number of annual holidays
- Weakening of trade union membership and density
- Increased unemployment
- Enormous increase in non-standard/informal workers
- A dual labor market
- Introduction of "productive workfare"
- Growing inequality, poverty and polarization – massive social costs

6) Growing inequalities - Distributional consequences

- Growth rates average 2.5% (2000-2006)
- Large permanent losses of income compared with pre-crisis – cannot be recovered
- Large increase in wage inequality in K/T
- Large increase in the wage premium paid to education and skills – is hollowing out households ability to survive
- Sharp increases in consumption inequality
- Poverty in Korea rose from 3% pre-crisis to 11.6% in 2006 – relative poverty rose from 9% to 13%
- Poverty in Thailand rose from 15% to 23%
- Abnormal growth in suicides
- Social welfare programmes – yes – but reach very limited parts of the poor/unemployed/informalized

7) Informalization of Labor Markets

- Korea pre-crisis 0 – today 35% - some estimates show that they receive only 2/3 pay – lead to increase in wage gaps
- Thailand pre-crisis 30 – today 53%
- Increase in employment insecurity
- Slow down in investments including employees pay of skill upgrading
- Increase in part-time and temporary employment

The Productive Welfare State

Where elite policy makers set economic growth as the fundamental goal, pursue a coherent strategy to achieve it and use social policy as an instrument for attaining that goal

The state as regulator in financing welfare

Legitimation of authoritarian politics

8) Increased Social and Political Instability

- Has led to casualisation of labor
- Growing job insecurity
- Increasing dualism between formal labor market and informal – 3D – dirty, dangerous and difficult
- Korea might be on its way to establish a new social contract – on paper
- Thailand – recent military coup – an outcome of the crisis

**9. Concluding remarks -National & Collective
Management
of Economic & Financial Risks
-Medium-term Risks to Asia**

1. Disorderly unwinding of global payments imbalances
2. Surges of capital inflows to Asia, creating economic overheating
3. Rise in protectionism in North America
4. Hard-landing of the US economy
5. Hard-landing of the Chinese economy
6. Rises in global long-term interest rates term interest rates
7. Further increases in oil prices
8. Geopolitical risks in Asia