

Chapter 9

Financial instability and child well-being: A comparative analysis of social policy responses in four crisis-affected Asian countries: Thailand, Indonesia, the Republic of Korea and Malaysia

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Summary: This chapter examines the social responses to economic crisis in Thailand, Indonesia, the Republic of Korea and Malaysia, countries that achieved rapid economic growth prior to 1996 by adopting market-oriented policies and by integration with the global economy. The paper examines the impact of the East Asian economic crisis on the well-being of children in these four countries. It reviews their experience of globalization prior to the crisis, and the underlying strengths and weaknesses of their economies. It analyses the economic crisis itself, and goes on to assess its impact on social sectors and on child well-being. The chapter discusses the responses of each government, the effectiveness of social safety nets and makes recommendations to protect the welfare of children caught up in economic crisis.

The chapter recommends that programmes for child development and protection should have specific categorization in budget programmes. It also stresses that comprehensive social policies must be backed by effective targeting and monitoring to ensure that their benefits reach those intended. It urges social policies aimed at broad human development with an emphasis on education and health, and recognition of investment in children as the most certain route to progress. The chapter concludes that government budget allocations for child rights, survival, development, protection, and participation should be explicitly protected during fiscal reform, especially for the most vulnerable children and particularly during times of crisis.

*** This study presents the views of its authors and is not the official UNICEF position in this field.**

JEL: E24, E44, F15, F43, I31

1. Introduction

East and South East Asian countries achieved rapid economic growth prior to 1996 by adopting market-oriented policies and by integration with the global economy. Yet these countries combined their market-oriented policies with state interventions in economic policies. While the main strategy for poverty reduction and social well-being was economic growth, each country had specific measures to enhance social development and take care of those left behind by the process of a market-oriented growth strategy.

The economic crisis that engulfed these countries demonstrated the inadequacies of sole reliance on economic growth, although those countries with higher levels of economic development, lower rates of unemployment and lower rates of poverty were better able to withstand the crisis. The crisis also demonstrated that the assumption of continuous economic growth was unrealistic, given the nature of the globalization process, and that social expenditure in areas such as education and health were vital at times of economic crisis.

The paper attempts to demonstrate the impact of the crisis on the well-being of children. However, its analysis is constrained by several factors. First, there is inadequate data and information on the condition of children in the period analyzed – the post-crisis period. This is partly due to the evaluation taking place within a very short time of the crisis. In addition, the availability and quality of data vary in the different countries. Consequently the paper draws on a number of small local surveys and, on occasion, extends its observations through anecdotal evidence.

Section 2 reviews the experience of globalization with the focus on pre-crisis economic and social development in the four selected countries, including the underlying strengths and weaknesses of their economies. Section 3 analyses the financial and economic crisis in the region, while Section 4 assesses the ways in which the economic crisis impacted on the social sectors. Section 5 discusses the impact of the crisis on the well-being of the child. Section 6 discusses the governments' responses, both fiscal and on other fronts, the social safety nets in these countries and their adequacy and deficiencies, and the coping strategies adopted by families and communities. The conclusions of the study are summarized in Section 7, which includes recommendations to protect the welfare of children.

2. Economic and social progress prior to the crisis

East and South East Asia experienced rapid economic growth in the 1980s and 1990s, with growth ranging from 5.7 per cent in Malaysia to 84 per cent in Thailand between 1985 and 1995. Per capita incomes increased, more than doubling in Indonesia and Malaysia; nearly quadrupling in Thailand; and increasing by nearly five times in Republic of Korea between 1985 and 1996 (ESCAP 1999). The rapid growth in per capita incomes, increased employment opportunities and reduced unemployment increased the participation of women in the work force and expanded the informal sectors, helping to generate income and reduce poverty in these countries.

The economic indicators of the four countries on the eve of the crisis are quite impressive as shown in Table 1. Thailand experienced the lowest economic growth, 5.5 per cent in 1996, though the country had experienced higher rates in the previous two decades. Of the four countries examined in this study, inflation was highest, at 7.9 per cent, in Indonesia, which had a high growth rate of 8 per cent. Elsewhere, the Philippines had a lower growth and higher inflation rate.

Table 1 Economic Indicators on Eve of Crisis 1996

	GDP Growth	Investment/ GDP	Inflation Rate Per cent GDP	Budget Surplus
Indonesia	8.0	30.8	7.9	0.8
Malaysia	8.6	41.5	3.5	0.7
Philippines	5.7	23.3	8.4	0.3
Republic of Korea	7.1	38.2	4.9	0.0
Thailand	5.5	41.7	5.9	0.9

Source: ADB 1998

There were fundamental strengths in the economies of the countries under review. Their domestic savings ratios were high even in 1998. In Indonesia the domestic savings ratio was as high as 24.1 per cent of GDP, rising to 33.8 per cent in Republic of Korea, 41.8 in Thailand and 48.5 per cent in Malaysia. The four selected countries had low public debt and debt servicing costs prior to the crisis.

The impressive gains in social development achieved by these countries are captured in the indicators in Table 2. These figures indicate a significant improvement in literacy, school enrollment, life expectancy at birth, and under 5 mortality.

Table 2. Social Development Indicators of Selected Countries

	Life Expectancy		IMR		Under 5 Mortality		Adult Literacy		School Enrollment	
	85	95	85	95	60	99	85	95	80	95
Indonesia	55	64	79	50	216	52	74	84	51	62
Malaysia	68	71	28	11	105	9	74	84	54	62
Republic of Korea	69	72	27	8	120	30	96	98	66	82
Thailand	64	70	44	27	148	30	91	94	49	53

Sources: UNDP, Human Development Report 2000, ESCAP, Economic and Social Survey of Asia and the Pacific 1999

Poverty, which has a direct relationship to several social indicators and to the well-being of children, reduced very significantly in Malaysia, where it dipped below 9 per cent by 1996. In Thailand it was halved between 1985 and 1996 to 11 per cent. Indonesia had a somewhat higher level of poverty and its poverty reduction was somewhat slower. In the Republic of Korea, poverty incidence declined rapidly during 1965-1980 from more than 40 per cent to less than 10 per cent and, on the eve of the crisis, its levels of poverty were down to single figures.

This improvement in social conditions was initially, and largely, the result of the improvement in general economic conditions. While most of these countries depended to a large extent on such a strategy at first, there was greater recognition that, just as economic improvements contribute to social development, the reverse is also true. There was also an increasing acceptance that social development could contribute to economic growth and lead to sustainable development.

However, the selected countries were not devoid of weaknesses (Krugmen 1994, UNDP 1999). One of the blemishes was a tendency in the latter years to indulge in high-cost public construction projects with little or no returns. This was particularly so in Malaysia. There were fundamental weaknesses in bank lending. Bank financing for real estate had been excessive and based on speculation that property values would continue to rise, resulting in over-investment in real estate and construction. The Philippines and Indonesia were particularly guilty of this distortion in bank lending. Boom conditions also encouraged excessive bank lending, prioritizing particular sectors and investor groups and politically powerful persons, without due consideration for their credit worthiness or project viability. In addition, the inefficient use of the inputs and production of these export-led-growth countries can lead to unsustainable growth, especially when they face an export slump, as happened in Thailand in 1996.

An additional weakness was embedded in economic and social policies, with over-reliance on employment and income growth to ensure the welfare of vulnerable groups. Therefore those who were left behind in the process of economic development, for whatever reason, had few safety nets. Only the Republic of Korea, for example, had unemployment insurance. In contrast to ASEAN countries, but in common with other developing countries, formal compensation is rarely enforced to pay those who are laid-off is not fully enforced. Most of those laid-off could not receive any, or part, of the compensation to which they were entitled. This deficiency became particularly salient at the time of crisis when the unemployed had inadequate safety nets for their protection.

3. Causes and nature of the economic crisis

The process of globalization and the strategies adopted by these countries had inherent elements of financial instability. In addition, globalization had a contagious character. Just as success in one country bred success elsewhere, one set back in one country could ignite a crisis in another. Yet most of these perceptions are retrospective. Before the crisis few saw these weaknesses. The seeds of instability were there, but were not perceived.

A wide variety of reasons have been given for the Asian financial and economic crisis after the event. These include the sluggish growth of exports¹, mismanagement of the respective currencies by not allowing a free float in conformity with changing global conditions, liberal capital account policies, poor corporate governance, premature liberalization of financial institutions, inadequate prudential regulations for financial institutions or the lack of implementation of existing regulations, excessive expenditures on large construction projects with little economic benefit, inefficiency in production, currency speculation, wrong financial and political responses to the initial crisis, speculative currency movements, the contagious effects of the crisis, and crony capitalism.

Although the crisis occurred during one period – the mid 1990s – and there were some common causes, there were also important differences in the causes, the responses and the impact. In Thailand, where the crisis began, financial liberalization policies without adequate supervision and monitoring, combined with a fixed exchange rate, led to large short-term capital inflows, which, for the most part, went into speculative sectors such as real estate and stocks. The over investment in unproductive sectors led to a bubble economy. Thailand, in particular, experienced an economic boom based on spiraling exports and short-term capital inflows. Weak financial systems, poor corporate governance, an export slowdown, low productivity, unsatisfactory government coordination and an unstable political situation were at the root of the crisis.

These underlying factors aggravated the financial crisis in Thailand. An export decline in late 1996 created the initial problems, which became serious in early 1997 when the Thai baht was heavily attacked and the Bank of Thailand spent a large amount of foreign reserves to defend it. By mid-1997 Thailand had exhausted its foreign reserves². This led to the inevitable floating of the baht on July 2, 1997, when the collapse of the Thai financial management system had spread to other ASEAN countries and exposed Asian regional financial and economic crisis.

The contagion effect that followed Thai devaluation led to devalued currencies in Malaysia and the Philippines in mid-July and Indonesia in mid-August. The flight of foreign capital led to steep depreciation of national currencies, which induced further outflows. Within a few months, the four currencies (including Thailand's) fell by 25 to 30 per cent against the US dollar.

When ASEAN local currencies weakened, the 'herd' behaviour of investors resulted in their moving out of the capital markets of the region and the further speculative movement of capital. These accentuated the financial crisis and there was a self-perpetuating spiral of the financial crisis and attacks on local currencies.

The competitive devaluation of ASEAN currencies did little for the respective economies, as their export competitiveness was not enhanced. Further, the interdependence of the ASEAN

¹ There was an export slowdown, especially in electronics semi conductors – a booming manufacturing sector of these ASEAN countries.

² The reported foreign reserves came down from \$40 billion at the beginning of 1997 to \$33.5 billion at the end of June, on the eve of the floatation of the baht. However, the Bank of Thailand later admitted that it countered the speculative runs by forward selling some \$23 billion of the reserves.

economies was not adequately taken into account. For example, 27 per cent of Malaysia's exports went to ASEAN countries compared to only 20 per cent to North America and 13 to the European Union. About 18 per cent of Thailand's exports were to ASEAN countries. Indonesian exports were however less dependent on ASEAN at 13 per cent, as were those from the Philippines.

Financial liberalization seems to have been a major cause of financial crisis in Indonesia, while Malaysia, facing a banking crisis in the 1980s, had improved its regulations and, as a result, felt fewer negative effects from financial liberalization. Yet, even in the case of Malaysia, it has been observed that the authorities were uncharacteristically lax in implementing prudent regulations as a result of political influence.

Bad governance in both private and public sectors, commonly found in Thailand, Malaysia and Indonesia, accelerated the deterioration of the economic situation in these countries. Mismanagement by commercial banks and the political system at that time worsened the situation and the depth of the crisis was therefore more serious in Indonesia and Thailand.

Political disruptions were serious in Indonesia, leading to the resignation of President Soeharto. These disruptions compounded the problem and initially distracted the government from the need to take remedial action. The Indonesian problem was further compounded by food shortages caused by the natural disasters. The skyrocketing of food prices fuelled social and political tensions and disrupted the economy further.

The causes of the crisis in the Republic of Korea were similar to those in Thailand. The crisis began with the problems arising from financial liberalization in early 1990s, which induced excessive borrowing by firms and financial institutions. The latter were not adequately prepared with prudent regulations and risk management, especially for short-term external debt. The country had a huge amount of foreign and domestic debt, over-investment, and the characteristics of a bubble economy. Weaknesses in the economic sector appeared in 1996 when economic slowdown and exports from the semi-conductor sector declined sharply. The country then experienced the largest current account deficit in its history (Kim, 1998). The Asian financial crisis in mid-1997 created investor panic and rapid changes in the capital market.

The collapse of the financial system suddenly spread to the real economy. The Republic of Korea's manufacturing sector, which was dominated by large companies and conglomerates (Chaebols), had extensive foreign and domestic borrowing. Consequently the financial crisis led to sudden shocks and rising unemployment. Not only were large enterprises with large amounts of foreign loans and workforces affected, but small-scale enterprises were also affected by the overall economic recession. The financial crisis and business collapses in Thailand also affected small and medium firms.

Furthermore, as a result of contagious effects in the depreciation of local currencies, some export-oriented sectors did not benefit as much as expected. In addition, they could not expand their production due to severe credit shortages. Indonesia and Thailand, in particular faced problems of immediate high interest rates and banking and financial institution collapses, coupled with the risk aversion behavior of lenders that resulted in reduced access to credit. Businesses faced difficulties from the lack of liquidity in the system and large debt

overhang. The financial turmoil and recession in these countries led to the reduction in demand for exports from these countries. Therefore, economies of these countries contracted as a result of both internal and external factors.

The severity and depths of financial and economic impacts in these countries during the crisis period varied. The period taken for the economies to recover to their pre-crisis situation also varied. The Malaysian economy recovered fastest, while Indonesian recovery has yet to be seen. This is reflected in the change in GDP growth. Table 3 demonstrates the change in GDP growth in these countries, comparing the economic situation before and during the crisis and the current situation of these economies with respect to their overall economic performance.

Table 3
GDP Growth Rates (%)
In Indonesia, Republic of Korea, Malaysia, and Thailand during 1985-95 and 1996–2000

Country	1985-1995 (*)	1996	1997	1998	1999	2000 (f)
Indonesia	6.0	7.8	4.7	-13.2	0.2	3.0-4.0
Rep. of Korea	7.7	6.8	5.0	-6.7	10.7	6.0
Malaysia	5.7	10.0	7.5	-7.5	5.4	5.8
Thailand	8.4	5.9	-1.7	-10.4	4.5	4.2

Sources: "Asia's Recovery - A Regional Update". Asia Recovery Report 2000. May 2000.

(*) Average growth from United Nations (1999). "Social Impact of the Economic Crisis". Economic and Social Survey of Asia and the Pacific. United Nations: New York 1999. P.115.

The East Asian crisis had a multiplicity of causes. The suddenness of its arrival and the severity of its impacts were unexpected. It was rooted in a complex set of problems that were not confined to the more obvious collapse of the financial systems. The insight it provides is that the roots of the crisis lay in inappropriate financial policies, excessive dependence on international capital movements, fundamental flaws in economic resource management and corruption that eroded prudential financial regulation. The lack of understanding of the nature of the crisis, as well as its management, at national and international levels, aggravated the problem.

4. From economic crisis to social impact

The sudden set back to economic growth was a decisive blow to social development. There are two main channels of transmission of economic crisis to social sectors and child welfare. First, the reduction of household income, and, second, government budget. The pathways of the macroeconomic crisis to social sectors and, therefore, to the welfare of children, include the depreciation of currency; capital flights; credit crunch; business collapse; income and

employment reduction; rising inflation and commodity prices; government budget allocation and spending on the social sector, and so on. Income and budget cuts could, consequently, lead to reductions in the level of child welfare provided by both households and governments.

4.1 Rising unemployment and underemployment

The crisis led to increased unemployment and underemployment rates in all four selected countries. The most vulnerable were those in the worst affected industries, including construction and manufacturing. The worst effects, initially, were felt in urban areas and later spread to rural areas. The most vulnerable were low-skilled women working in these industries and in services.

The rise in unemployment in 1998 was most severe in Republic of Korea, as shown in Table 4. The economic crisis led to sharp increase in the country's unemployment rate, from 2.6 per cent to 6.8 per cent during 1997-1998. The immediate impact was serious as its manufacturing industries were dominated by large companies and chaebols, which were badly affected by the financial crisis. In addition, the labour market was not flexible enough for labour mobilization.

Thailand and Indonesia were also hit immediately and seriously by the crisis in 1998. For example, unemployment increased from 2.2 per cent to 4.6 per cent in Thailand, and from 4.7 to 5.5 per cent in Indonesia during 1997-1998. Their unemployment rates continued to rise in 1999 to 5.2 per cent Thailand and 6.4 per cent in Indonesia, while the unemployment rate in Malaysia and the Republic of Korea began to fall in 1999 when their economies started to pick up.

The employment reduction in Malaysia was not as serious as in other affected countries as it had a virtual full-employment economy as a result of years of economic growth. In addition, the loss of employment fell significantly on international migrant workers such as those from Indonesia, leading to a tightening of the labour market in Malaysia. In Indonesia the returning migrant labourers swelled unemployment.

Table 4. Changes in numbers and percentages unemployed during 1997-2000.

Countries	1997		1998		1999		2000	
	No. (Mil.)	%	No.	%	No.	%	No.	%
Thailand*	0.7	2.2%	1.48	4.6%	1.7	5.2%	1.42	4.0%
Indonesia	4.2	4.7%	5.06	5.5%	6.03	6.4%		
Republic of Korea	0.56	2.6%	1.4	6.8%	1.3	6.3%	1.0	5.1%
Malaysia		2.8%		3.2%		3.0%		2.8%

Source: National Statistical Offices

Note: * for Thailand, data from Labour force surveys, 1st round (February).

This impact on employment is more evident in relation to underemployment. Firms reduced the number of days or hours worked and reduced wages commensurately. Consequently, while the increase in unemployment rates in these countries is not very high, there is evidence of increased underemployment rates. Female workers were those most affected by reduced working time and wages.

In Thailand too the crisis led to increasing underemployment, followed by increasing unemployment rates. The crisis in the labour market started with signs of increasing underemployment rates since the third quarter of 1997 (i.e., 9.1 per cent in August 1997 and 10.1 per cent in February 1998 – about double the rate of the previous year). The early response of business was a downsizing by cutting the number of hours worked and worker benefits. The incomes of employees contracted as a result. It is clear that the unemployment rate increased at a later date, rising from 3.1 per cent in February 1998, to 5.3 per cent in August that year (Kittiprapas and Intaravitak, 2000).

The female labour force was more affected in terms of higher underemployment rates, lay-off and exit from the labour force. One positive sign is that many women leaving the labour force went to study. Men, however, face a higher possibility risk of long-term unemployment³. The long-term unemployed in Bangkok were relatively higher-educated, and those aged 16 to 24 were also more vulnerable, possibly because they may be more selective in jobs. Bangkok was hit immediately by the crisis and the adverse affects only later spread out to rural areas (Ibid).

Women appear to have lost employment more than men owing to the nature of their occupations. Female retrenchment was more significant than it would have been a decade before as female labour participation had increased from 34 to 37 per cent between 1990 and 1996. (Jomo and Aun 2000).

The impact of the loss of employment was also mitigated for Malaysian workers, as the burden tended to fall on migrant workers. The hardships faced by these migrant workers were considerable, including the possible costs of repatriation. Because Malaysia was a near full-employment economy, reduced employment was not a social disaster as it was in neighboring Thailand and Indonesia. In fact some of the adverse effects of reduced employment fell on these countries as their workers returned home to swell the ranks of the unemployed.

However the impacts of the economic crisis on labour markets have been felt in different areas at different times and at varying degrees, labour mobility is clearly seen as a means of adjustment. The directions of labour movements change alongside the economic situation in each area.

The impact of the crisis on the labour market in Indonesia was probably similar to that found in Thailand in terms of trends and patterns, but its magnitude and severity were greater. Indonesia's labour market is characterized by high underemployment and informal employment. While the unemployment rate did not drastically increase, the crisis did increase the number of underemployed, especially in urban areas where there was a rise of 20 per cent

³ It is defined as the unemployed for more than one year, using data from the 1998 labour force survey.

in 1999, compared to an increase of 10 per cent in rural areas. It should be noted, however, that the rural unemployment rate – at 47 per cent – was about double that for urban areas.

Indonesia also had labour mobility from formal to informal sectors and to traditional sectors such as agriculture, fisheries, and forestry in 1998. However, the limited labour absorption capacity of the informal sector led to a turnaround movement to the formal sector again in 1999. Labour mobility to the agricultural sector could not last very long, and those migrants returned to find jobs in the more modern sectors in 1999 (Feridhanusetyawan, 2000). As in Thailand, the urban-rural migration in 1998 was a temporary phenomenon and reversed back to normal in 1999 when urban employment increased.

The most immediately vulnerable Indonesian workers were the international workers who were laid-off from overseas (i.e., from Malaysia and Singapore). Working women were negatively affected as those who left the labour force returned to their traditional role as domestic house keepers. The proportion of informal female workers among the total labour force was already higher, at 70 per cent, than for male workers, at 60 per cent, and increased since the onset of the crisis. With a national average of underemployment⁴ at 40 per cent, female underemployment was higher, at 50 per cent.

The numbers of home based-workers increased during the crisis – the result of growing numbers of people being laid-off and, therefore, available for home-based work and because of the cost-cutting strategies of manufacturers.

Compared to Thailand and Indonesia, The Republic of Korea was far better in managing the impact on unemployment. The country suffered in the first year of the crisis, with a massive reduction in jobs – falling by more than two million between late 1997 and early 1999, a fall of close to 20 per cent. This was mainly attributable to the decline in manufacturing and construction sectors. Reversing the traditional trend of the labour market, the crisis increased the unemployment rate for semi- and low-skilled workers (i.e., 9.1 per cent for those with high school or lower education, compared to 6.4 per cent for those with college and higher education in early 1999). The new pool of unemployed workers led to a sharp increase in long-term unemployment in the same period (5.8 per cent versus 1 per cent in 1998). The average number of working hours per week declined from 47.3 per cent to 45.9 per cent during 1996-1999, with an increase in the proportion of part-time workers. Labour market and labour mobility in The Republic of Korea was relatively rigid because its manufacturing structure was dominated by large firms and conglomerates that had less flexibility to switch their productions and adhered to strict with labour laws.

The most vulnerable unemployed people in The Republic of Korea were youth and family heads. Among those unemployed, the youth unemployment rate in 1998 was the highest (about 36 per cent of the 20-29 age group and 20.8 per cent of the 15-19 age group). The crisis halted the practice of hiring new graduates from high schools and colleges, generating a large pool of newly graduated unemployed. However, the most critical problem seems to be the high unemployment rate of family heads. About 45.7 per cent (668,000 persons) of the total unemployed in 1998 were family heads of whom 19.1 per cent had no other sources of income (Kang, et. al, 2001).

⁴ Indonesian statistical definition of underemployment is working less than 35 hours a week.

4.2 Poverty

The rise in unemployment and underemployment has a direct bearing on the increases in the incidence of poverty seen in all four countries. The increase in both absolute and relative poverty is because of both decreases in nominal incomes and erosion of these incomes through higher prices. The latter was most pronounced in Indonesia, where inflationary conditions seriously eroded the incomes of the poorest sections of the community. Similarly the increase in the poor was significant in the Republic of Korea and to a lesser extent in Malaysia. We deal with the inflationary impact after discussing the incidence of poverty in each of the four countries.

In Malaysia, the number of people living below the poverty line increased. Some estimates put the figure as high as 500,000 in 1998, projected to rise to about one million at the end of 1999 (Jomo and Lee 2000). The latter projection is unlikely to have been realized, owing to the recovery of that year and increased employment opportunities.

The proportion of the population below the recognized poverty line in Malaysia increased from 6.7 per cent in 1997 to 8 per cent in 1998. The proportion of the population in acute poverty rose somewhat less, from 1.4 per cent of the population to 1.7 per cent, however, this increase, and its implications, represented the most serious adverse social impact of the crisis (Jomo and Aun 2000).

Poverty incidence⁵ in The Republic of Korea had increased sharply during the first year of the crisis when the unemployment rate soared – more than doubling from 11.4 per cent in 1997 to 23.2 per cent in 1998. However, this severity was probably short lived, with poverty incidence expected to fall to 12.5 per cent in 2001.

Different approaches in poverty measurements result in different estimates of the poor and poverty incidence, especially in Indonesia and Thailand.

The estimates of poverty incidence in Indonesia in the early days of the crisis were confusing, with different definitions, data, and measurements from different sources (both national and international)⁶, which led to incredibly high rates. After some adjustments in 1998, the poverty rate has become more accurate. Indonesia poverty incidence, measured by the national poverty line, rose from 11.3 per cent in 1996 to 20.3 per cent in 1998. World Bank estimates based on US\$1.5 per day per person give a poverty incidence figure of 37 per cent in 1999, estimated to fall to 32 per cent in 2001 (ADB, 2001).

For Thailand, according to official records, poverty incidence increased from 11.4 per cent to 15.9 per cent, or about three million people, from 1996 to 1999. NESDB official records⁷ indicate that number of poor people increased from 6.8 million in 1996 to 7.9 million in 1998

⁵ Poverty line is measured by a benchmark of \$ 7.94 per day person (ADB, Asia Recovery Report, 2001: March).

⁶ Comparison of data was shown in Table 21 in Feridhausetyawan, 1999, p. 76. Problems and confusions of early estimates were discussed in Feridhanusetyawan, 2000: 147-148).

⁷ Official poverty lines based on Kakwani approach (NESDB, 1999) are 8,736 baht for 1996 and for 10,932 baht for 1998.

and to 9.8 million in 1999. However, the increase in poverty incidence was geographically uneven. The increase was highest in the Northeast – the poorest region with more than half of the total poor – where poverty incidence increased from 19.4 per cent to 30.8 per cent over the same period.

Examined by sectors, the greatest increases in poverty during the crisis were found among those working in agriculture and construction. Those engaged in agriculture had an increase in poverty incidence⁸ from 17.89 per cent in 1996 to 21.06 per cent in 1998. The sector's contribution to poverty also increased sharply from 49.97 per cent to 58.77 per cent (from 1996 to 1998). Those in construction also experienced an increase in poverty incidence from 11.05 per cent to 14.45 per cent in 1996-1998, and the sector's contribution to poverty increased from 4.03 per cent to 4.78 per cent during the same period (Kittiprapas and Intaravitak, 2000). This is because the construction industry virtually collapsed in 1997-1998. Unfortunately, agricultural activity in rural areas was too limited to absorb those left without jobs by the construction downturn and the new pool of unemployed returning to agriculture contributed to the increased poverty of the sector. Increased poverty in agriculture in 1998 is consistent with the local survey results of the Office of Agricultural Economic Research Unit (1999)⁹, which reported that the net income of agricultural households dropped in 1998 because of the rising costs of imported production inputs, although they reaped some benefit from higher export values as a result of the depreciated baht. The survey also found that the debt of agricultural households also increased.

With little improvement in the economy, rural employment and average real wages continued to decrease. Rural poverty has been high both before and during the crisis (about 97 per cent of total poor are in rural areas). This is a long-term problem, not induced by the crisis but accentuated by it. Because the well-being of the children of poor families is at risk, it is in the public interest to address the fundamental problem of rural poverty.

4.3 Inflation and food insecurity

Inflationary conditions eroded the real incomes and the welfare of the lower income groups to a more significant extent than for the overall population. This was particularly true for lower income workers, who spent a large proportion of their income on food.

Indonesia, which experienced sky rocketing food prices and reduced purchasing power, had problems of food security and saw its food subsidy programme undermined by ineffective distribution systems. This programme included food reserves and supplies of food at subsidized prices, particularly rice. However, local officials responsible for distribution system had problems in ensuring an equitable distribution of food. This led to social tension

⁸ Poverty incidence in this paper follows the definition of Jitsuchon (2000), TDR Quarterly Review 15(1). According to TDR alternative approach, poverty measurement is based on weighted calculation of calorie requirements, consumption basket and spatial price indices. As a result, poverty lines in 1996 were 8,878 and 10,924 baht for rural and urban areas respectively, and those in 1998 were 10,383 and 12,350 baht for rural and urban areas respectively. Consequently, the number of the poor increased from 8.42 to 9.12 during 1996 to 1998.

⁹ These surveys were conducted during the 1995/96 and 1997/98 agricultural years to compare the impact of the crisis on income, expenditure, productivity, debts, and labour movement.

as the poor received less than they had expected. The urban poor, who may live in one place for a short amount of time, may not have the necessary ID to claim this assistance. Therefore, the programme has not been able to serve the target groups effectively.

Food insecurity for the poor is a major problem during an economic crisis, with a direct impact on vulnerable families and their children. In ASEAN countries like Indonesia and Thailand, the issue is not food availability, but the increased price of food and the limitations of the distribution channels. In Indonesia, in particular, there are large disparities in food accessibility between regions and ethnic groups. Thailand, meanwhile, with less inflation and lower food prices, has not faced as severe a food security problem during the crisis as Indonesia. There is, however, inadequate food in some areas such as among urban poor, slums and distant areas. Although food security is unlikely to be a general problem in a food surplus country like Thailand, the problem may exist at micro levels among disadvantaged families and their children.

In Malaysia the overall reduction in workers' nominal incomes was aggravated by a perceptible decline in real wages because of higher price increases in 1998. The rate of inflation nearly doubled from 2.7 per cent to 5.3 per cent. Even this is not indicative of the hardships that the poorer population had to face as real food prices rose at a higher rate. Medical expenses and drug prices also increased more sharply. The prices of drugs increased by 6.2 per cent, with the price of imported drugs rising by 30 per cent. These price increases meant the significant erosion of the real incomes of lower income groups.

In all four of the countries studied, price inflation eroded nominal incomes, causing hardships for the poorer sections of the population.

4.4 Health

The economic crisis affected health through price increases in medical services, a reduction in disposable income, a decrease in government expenditures and poorer public health care services. Just as private health care became less affordable, the curtailment of public expenditures and higher costs of providing public health facilities weakened access to health facilities for poorer people in all four countries.

Stalker reported that in Indonesia people had been deserting the public clinics even before the crisis (Stalker, 2000). Public provision of healthcare had declined from 30 per cent of total healthcare provision to below 20 per cent in 1998. Part of the reason has been lack of funds that drove down quality. Real public health expenditure had been rising up to the mid-1990s before falling as the crisis struck. Another reason for lack of quality might have been due to the wrong emphasis by the government on the management of health.

One adverse impact of the crisis in Malaysia was a decline in real expenditure on health. The rising health costs of private healthcare resulted in a shift to public health services that were starved of funds and personnel, especially doctors. This deterioration no doubt impacted on the health of the elderly, mothers and children. The exact nature and extent of the impact of this shift is difficult to assess and may only emerge in time.

In The Republic of Korea health care costs increased sharply and, as in the other three countries, there was a shift from private services to public facilities. Health care expenses increased by 13.2 per cent in 1998, while health care utilization grew at a much slower rate.

The overall effects of the crisis on Korean health show disparities between various income groups. It can be argued that the economic crisis affected urban lower income groups more severely in terms of medical care expenditures. It has been suggested that lower income groups were more severely affected, reducing their health expenditures by an average of 30 per cent, while those in upper income brackets reduced such expenditures by 20 per cent. However, when rural areas and the unemployed in rural areas are included, it is likely that such disparities are magnified.

Demand for family planning gives us an insight into one social impact of the crisis in The Republic of Korea. According to the Planned Parenthood Federation of Korea, the use of contraceptives rose by 14 per cent, in contrast to the 3 per cent annual increase in contraceptive practice.

In Thailand actual expenditure for family planning drugs increased by 19.2 per cent in 1998. This may have been due to a shift to self medication as the cost of drugs increased after the floating of the baht and a 21 per cent (approx.) increase in the costs of pharmaceutical production (Preeda, 1999). The effects of devaluation on drug prices are more severe in rural areas than in, for example, Bangkok. This exacerbates the financial burden of the poor and undermines their health care. As a result, drug consumption decreased. There has also been a shift away from the use of private hospitals to health clinics to keep family costs down. Households reduced expenditures on medical and institutional care by about 36 per cent while expenditures on self-medication increased by 12 per cent.

Psychological problems were also evident in Thailand. A survey by the Department of Mental Health throughout the country in December 1997 found that 75 per cent of respondents were affected by the crisis, mostly as a result of financial problems.

5. Impact of the crisis on children

The preceding section discussed the impact of the crisis on overall social development. Several of those impacts had a direct bearing on the well-being of children in such areas as education, nutrition and health and child abuse.

5.1 Education

One of the key impacts of the economic crisis was on the education of children. Dropout rates increased in most countries while in some, enrolment rates declined (particularly at primary level) and the quality of education deteriorated.

In Indonesia the crisis resulted in declining enrolment in basic education as the poor withdrew their children from schools. There was also erosion in the quality of primary and

junior secondary schools as a result of funding shortages. Various studies and surveys show that the dropout rate of children from the poorest families in Indonesia may have increased a little, predominantly at junior secondary school level, and among girls more than boys. The fact that this fall in enrolment was small could have been because of the success of the programmes introduced by the government in conjunction with other regional and international organizations to keep children in schools.

Children who do not attend schools are supposed to be working. However, the number of child workers and those out of school seems to be inconsistent. Stalker (2000) reported that the number of children in the workforce from surveys came to be about 7 per cent or 1.8 million in 1998, with a higher rural rate, at 10 per cent, and a lower urban rate, at 3 per cent. But the number seems far lower than the proportion of children not in school. It is possible that these working children are also attending schools, or that the estimate is very inaccurate.

However, a local survey by Cameron (2000b p.82), found that the crisis had not had a dramatic negative impact on children. School attendance dropped slightly after the onset of the crisis, but later recovered and the safety net scholarship programme was effective to some extent in mitigating dropout during the crisis (*Ibid.*). Whether it was effectively targeted will be discussed in section 7.

In Malaysia, the decrease in incomes, the increases in prices and the depreciation of the currency had less impact on education. There is no evidence of higher dropout or lower enrolment, although a marginal increase in dropout is likely to have occurred among children in the lowest income groups and in remote areas. It is likely that Universal Primary Enrolment was more or less maintained; though some of the poorest households would have faced higher opportunity costs in sending their children to school. The lack of data should not be interpreted to mean that even the poorest households were able to send their children to school. It is more likely that there were a small number of poor households that did send their children to school, and a compromise on the quality of education. There is no evidence that there were new areas of child labour or increased exploitation of children. (UNICEF 2001).

However the crisis had an impact on higher education. Malaysia has had large numbers of students studying in foreign universities and some parents were unable to continue financing their education. The problem was so severe that foreign universities attempted to assist Malaysian students by providing financial support, reductions in fees, loans and deferred payments. A more significant effect was that the outflow of students to foreign universities declined and the pressure on university places in the country increased. About 112,000 students applied for 40,222 places in local universities.

The impact on education was far more extensive in the Republic of Korea, with a reduction in primary enrolment, an increase in dropout and an increase in tertiary enrolment. There was also a significant fall in the number of children attending kindergarten schools.

It has been argued that reduced income in The Republic of Korea would result in a reduced return on additional investments in education, with the crisis having an adverse impact on demand for education even though tuition fees at all levels were frozen at pre-crisis levels.

Data from the Republic of Korea provide evidence of both gross enrolment rates and advancement rates decreasing marginally in kindergarten, elementary school and middle school, while enrolment rates increased in higher education. This implies that the declines in real income declines were significant enough to make the direct and indirect costs of education too heavy a burden for many families.

The shrinkage of kindergarten education was evident in The Republic of Korea. Faced with increasing financial difficulties parents stopped sending their children to kindergarten schools. Kindergarten enrolments which had been on an upward trend since the 1970s fell from 568,000 in 1997 to 534,000 in 1998, a fall of 6 per cent. Considering that children are increasingly likely to be neglected by those parents who are busy trying to compensate for economic loss caused by a lay off of a family member, wage reduction or inflation, the indirect effects of the crisis on children's education will obviously be greater than the data indicate.

Drop out and absence from school for reasons other than illness stood at 8,269 after the crisis, six times higher than the pre-crisis level. Most of these students dropped out from schools as a result of domestic problems such as poverty and family break up. A Korean Institute for Social Information and Research (In-Sirch) survey disclosed that these dropouts did not necessarily come from the lowest income groups. It also revealed that the male drop out rate was 5 per cent higher than the female rate.

It is possible that the difficulties of finding employment contributed to increased enrolment in higher education. If jobs are scarce, higher education becomes a more attractive option than joining the swelling numbers of unemployed. Such involuntary advancement to higher level education is a form of disguised under-employment.

As a result, the gross tertiary enrolment rate increased by 5.5 per cent, as employment losses were highest among those aged 15 to 19, followed by the 20 to 29 age group. The opportunity costs of higher education was reduced, while at the same time it was seen as an investment for the future. This view was reinforced by a feeling that the crisis was temporary and that there would be better employment opportunities for those with a good education once the economy recovered.

In Thailand there is evidence of students dropping out of schools and universities since the beginning of the crisis. Data from the Ministry of Education indicates that the 1997 figures for school drop out rate for grade 6 to lower-secondary level (7.64 per cent), and for lower-secondary to higher-secondary (13.17 per cent) both which increased with the crisis. According to estimates from the Ministry of Education and the National Economic Council (NEC), some 126,000 students dropped out because of the crisis in 1998 and another 275,000 left school early in their primary or secondary schooling, while others moved to cheaper schools – often by moving from urban to less expensive rural schools. Boys had a better chance of continuing education by becoming Buddhist novices. Generally, school enrolments dropped 7.2 per cent for private schools and 1.8 per cent for public schools¹⁰.

¹⁰ Quarterly Newsletter: ADB's Social Sector Program Loan (SSPL), January, 1999.

Several local surveys show clear evidence of school dropouts in Thailand. Survey findings on the causes of dropout show that student and family factors such as poverty are significant reasons. A joint UNICEF, NESDB and ORIC¹¹ survey with drop out students in five provinces, their parents, teachers, and community leaders from December 1999 to April 2000 found that the main reasons given for dropout were: dislike of school, poverty, family problems and lack of intelligence, in that order. In the view of teachers and community leaders the most important reason was poverty, followed by dislike of school and family factors. The students' dissatisfaction with schools or educational systems might be the deciding factor in their decision to dropout.

Similarly, research by Mongkolsamai et. al.(2000) ¹² interviewed students in 1,157 primary schools and found that the most important reasons given for school dropout were such family factors as poverty – which came top of the list – parents' education, attitude and migration. Fewer factors were related to the students themselves, such as low I.Q., psychological problems or drug abuse. The other factors cited relate to school and teaching factors, such as administrative systems and practices, curriculum, regulations and so on.

The crisis has also worsened transition rates. Between 1997/98 and 1998/99, the number of students who did not move from primary to lower secondary accounted for 21 per cent of the total increase in dropouts, and the number of students who did not move on to upper secondary accounted for 25 per cent.

5.2 Child employment and poverty

Child labour is fairly evident in Thailand and Indonesia owing to highly informal labour markets, low levels of income and education as well as relatively little enforcement of labour laws.

Thailand's child labour force was the most adversely affected by underemployment especially in rural areas. The Labour Force Surveys of dry and wet seasons show that child labourers aged 13 to 15 had the highest underemployment rate of any age groups. The total underemployment rate of this age group rose sharply in 1998 (27.4 per cent) and 1999 (23.4 per cent) in comparison to the 1997 rate of 16 per cent. Rural areas had the highest rate of underemployment among working rural children – 30 per cent in 1998 and 26 per cent in 1999, compared to 17.6 per cent in 1997 (Kittiprapas and Intaravitak, 2000).

In fact, child labour employment declined as a result of a long-term trend. Thai labour force survey data indicate that child labour employment declined steadily from 2.6 million in 1992 to less than 1 million in 1999 as a result of economic development and closure of factories during the crisis. However, actual increases in child labour during the crisis are difficult to assess as children may migrate with their families or work in informal sectors. An estimate by Kakwani (1998) indicated that the crisis may have led to an increase of up to 350,000 in the number of child labourers.

¹¹ UNICEF/NESDB/ORIC, *Economic Crisis and Educational Status of Thai Children* (in Thai), 2000.

¹² This research was conducted by a team from Faculty of Economics, Thammasat University.

The Thailand Country Paper of 2001 (Kittiprapas, 2001) indicated that child poverty is a major problem. The NESDB (1999) estimated that in 1998 children aged 0-17 accounted for 3.1 million of the 7.9 million people living in poverty – about 40 per cent of the total. In addition, a study by the Primary Education Commission indicates that 3.7 million of the country's 6.3 million children suffered from hunger¹³ -- meaning that about 59 per cent of all children suffered from a lack of basic food requirements. These high ratios of child poverty represent a serious problem for the country's long-term human resource development.

Child labourers do not receive proper remuneration and consequently increase the risk of poverty. Kakwani's research also found that those aged 13 to 18 suffered the largest reduction in their real income as a consequence of the crisis (NESDB, 1999). This is consistent with the World Bank (2000) finding that during 1996 to 1999 younger workers (aged 13-17) were more vulnerable than other age groups to real wage decline. Consequently, falling wages for child labourers would have an impact on their households as most of children from disadvantaged families provide a significant portion of family income.

A survey of child labour from the Foundation of Children Development (1998) in disadvantaged households found that children earn between 2,000 and 4,000 baht a month. It is estimated that many child labourers – some 100,000 – come from the Northeast. However, more than 60 per cent of working children surveyed tended to look for jobs in urban areas rather than study or live in rural areas.

It is estimated that there were about 230,000 child labourers aged 13 to 17 years, according to figures from the Social Security Division of the Ministry of Labour and Social Welfare in 1998. The crisis increased the probability of lay-off and reductions in wages and welfare and vulnerable child workers may have moved to informal and small working units. Effective support to keep children in school could mitigate this problem but it is difficult to reach migrant child labourers who have not registered with schools and travel with their parents, often living in inadequate conditions, such as construction sites. The rights of these children, and their violation, are of particular concern.

While child labour employment may have declined overall, the search for employment did not decrease during the crisis and may have increased in its immediate aftermath. The number of children aged 13 to 17 looking for work increased sharply in 1998, indicating that the reason child labour employment did not increase during the crisis was simply because there were no jobs (World Bank, 2000).

In Indonesia, economic hardship forced more children into the workforce at an earlier age and for lower wages. The labour force participation rate for children in Indonesia, aged 10-14 years, increased from 7.7 to 8.3 per cent from 1997 to 1998, while the rate for those aged 15-19 fell from 39.2 to 38.5 per cent and their unemployment rate increased slightly from 16.9 to 17.3 per cent over the same period. This implies that child labour between 10 and 14 exists because of deterioration in the labour market combined with increased unemployment. Wage employment, particularly of those 15-19 years, declined. The crisis has seen child labour following the general trend in the labour market towards informalization, with child labour

¹³ *Bangkok Post*, April 16, 1999.

outside the agricultural sector concentrated in self-employed trade and services in urban areas.

A critical concern is the vulnerability of child labourers. Increased numbers of street children can be seen in major cities such as Jakarta working as beggars and street singers to earn additional income for their families. According to the Ministry of Social Affairs, the incidence of street children increased by 400 per cent in 1998. There were about 50,000 street children in Indonesia of whom 26 per cent (or 13,000) live in Jakarta, compared to the estimated 3,000 street children in the city prior to the crisis.

5.3 Children and Social problems

There are serious concerns about the increasing abuse of children in Indonesia, Thailand and the Republic of Korea since the beginning of the crisis as a result of such underlying problems as poverty, family break up and parental neglect.

Not surprisingly, in Indonesia the crime rate increased with the economic crisis, with children increasingly involved. The crisis, together with political violence and, to a certain extent racial and ethnic tensions led to an increase in violent crime. Children moving into the informal sector to earn a living were exposed to various risks and the increasing numbers of street children were particularly vulnerable to crime and exploitation.

There are reports that child prostitution has increased in Indonesia, with drug and alcohol abuse reported among educated, unemployed youths.

In The Republic of Korea, family break up, deteriorating health facilities and rising costs for education and childcare affect the well-being of children. Financial difficulties and resulting stress appear to have created considerable family discord, affecting children's mental state and school participation. Family discord appears to have resulted in the abandonment of children and the proportion of child adoptions by foreigners has increased, has increased, while the total number of adoptions has remained fairly static. It is significant, however, that this reverses the trend of decreasing adoption observed in the 1990s. The number of children in welfare institutions decreased by about 9 per cent between 1990 and 1996, but increased by 0.6 per cent in 1998. In 1998 there were 17,044 children in welfare institutions. One of the distinguishing features of the impact of the Korean crisis was the disintegration of families, the abandonment of children and the elderly and an increase in violence and crime.

Family disintegration can have the most detrimental effect on social capital as it undermines the family as a foundation of society. The divorce ratio – the number of newly divorced couple in every 1,000 people, rose from 2.0 in 1997 to 2.6 in 1998 – a growth rate of 30 per cent¹⁴ and a sharp upturn in the ongoing trend: 1.1 in 1980; 1.3 in 1992; 1.5 in 1994; 1.7 in 1996. The number of counseling services for divorce increased by 18.2 per cent in 1998¹⁵ to meet demand, compared to 0.2 per cent in 1997. At the same time, the number of newly married couples in every 1,000 people fell from 8.0 in 1997 to 7.8 in 1998.

¹⁴ From National Statistics Office, 1999.

¹⁵ From Korean Counseling Centre of Legal Advice on domestic affairs in 1999.

Rising crime rates jeopardise social capital. Despite The Republic of Korea's generally harmonious social community the economic crisis led to rising crime rates. Even more indicative of the magnitude of the problem was the rise in familial crime such as patricide, lineal ascendant assault and injury, which recorded increases of 65.2 per cent, 46.3 per cent and 16.1 per cent, respectively, compared to their 1997 levels.

The total number of criminal offences grew faster in 1998 than in previous years, with a particularly rapid rise in violent offences such as homicide, rape and assault. There has also been an increasing incidence of criminal activities as a means of survival with necessities such as milk, detergent, and diapers reported to be the most popular items stolen from department stores, rather than more expensive goods.

In Thailand, increasing tensions within families may have affected children, particularly those from disadvantaged households. A survey conducted in late 1997 by the Foundation for Children Development (1998) in Thailand found that about 45 per cent of disadvantaged children reduced school lunch expenditure and about 85 per cent of them reduced overall daily expenditure. Such children tend to be overlooked even during economic boom and, therefore, programmes for such children should take priority in times of economic downturn, especially in poor areas.

There are non-systematic and unclear data on child prostitution and street children partly because of the high mobility of these groups. However, there are some records on drug abuse. Data from the Ministry of Public Health indicates that the number of children under 14 treated for drug addiction or use doubled between 1997 and 1998 from 805 cases to 1,608 cases (World Bank, 2000).

A drastic increase in drug addiction and drug trading presents a serious threat to the country's human resources. Drugs-related arrests rose by 27 per cent between 1997 and 1998 and 50 per cent of those convicted of drugs offences are youth and children. In 1998, the use of Methamphetamine became more widespread and the number of drug addicts increased by about 4-5 times, continuing to be a serious problem among the younger age groups. The sale of illicit drugs at schools is growing and drug convictions in juvenile courts outstrip robbery convictions by two to one.

There are hardly any data on the condition of children in Malaysia following the crisis. It is reasonable to infer that some deterioration would have occurred as a result of the small increase in poverty, the reduced employment opportunities for women and the overall reduction in real incomes. However, adverse effects may have been limited by the small incidence of poverty, its very marginal increase and an erosion of real incomes that was not significant enough to affect the basic requirements and nutritional needs of children on a large scale. Policy interventions to reduce prices of basic foods through subsidies and continued imports would also have minimized the adverse impacts on children.

5.4. Child health and nutrition

The impact of the crisis on child health and nutrition is of increasing concern, especially in relation to early childhood development.

Stalker (2000) pointed out that in Indonesia that the most affected children had been those who were severely malnourished – often children who were malnourished before and after the crisis. In 1999, 8 per cent of children under five were severely malnourished – 1.8 million of Indonesia's 23 million under-fives – more than in 1989. However, there had been some progress on moderately malnutrition with the proportion of under-fives who were underweight falling from 36 per cent to 25 per cent between 1989 and 1999.

Services, particularly in rural areas, were not flexible enough to adjust to changing local needs and Stalker (2000) reported a dramatic drop in the number of children visiting Indonesian health facilities.

The crisis seemed to force people to rely more on traditional helpers and family members to help with child birth, particularly in urban areas, and this could have led to increased miscarriages and infant mortality. Breast-feeding was also reported to be in decline in urban areas, possibly because mothers had to spend more time working to supplement family income, or because of their own deteriorating health.

It is difficult to draw conclusions on health indicators in Thailand because of the short duration of the crisis and the long-term effects of changes in health. However, it may be possible to see the impact of the crisis in indicators for infant mortality and underweight. The infant mortality rate deteriorated from 5.2 per 1,000 live births in 1997 to 5.8 per 1,000 in 1998, but slightly improved in 1999 to 4.5 per 1,000¹⁶. The percentage of newborn babies weighing less than 2.5 kilograms had decreased overall from 10.2 per cent in 1990 to 7.2 per cent in 1999 but fluctuated slightly upward with the onset of the crisis in 1997.

While there is a long-term trend of declining child malnutrition in children, malnutrition is more severe in the poorer regions, such as the Northeast, than it is in Bangkok. More than three million pre-school aged children are malnourished, of whom more than one million are severely malnourished (NYB, 1999). Estimates from both the Ministry of Public Health and the Health Systems Research Institute suggest that there were twice as many underweight children below five years of age in rural areas than in urban areas. These findings urged authorities to pay more attention to worsening areas, such as the rural Northeast, where the poor had the lowest rate of access to pre-natal and child delivery care and their infants had the highest rate of low birth weight.

The growth in the number of abandoned children, particularly in Bangkok, reflected the weakening of family institutions. The rate of infant abandonment increased significantly from 9 per 10,000 infants in 1997 to 12 per 10,000 in 1998 (World Bank, UNICEF, IPSR, and CUSRI, 2000). The number of children newly admitted to orphanages increased from 1,458 in 1997 to 1,765 in 1998. Such increases suggest the link between the crisis and family disintegration. In addition, there are increasing numbers of AIDS orphans and HIV infected mothers. It is predicted that about 230,000 children under the age of 15 will have lost their mothers as a result of HIV/AIDS by the year 2005.

¹⁶ From Health Statistics from the Ministry of Public Health. However, the National Survey of Population Changes shows different ratio, e.g. 34.5/, 1000 in 1991 to 26.05/, 1000 in 1995 (the latest estimate).

Wasek, et. Al. (2000) indicates that as of January 1999, there were an estimated 34,372 children whose mother had died as a result of HIV/AIDS, in addition to 57,048 children whose mothers were living with AIDS and 420,731 children whose mothers had asymptomatic HIV. Such high numbers show that the severity of this social problem and require a response from every part of society.

The nutrition levels of Korean children are thought to have declined because of the financial difficulties faced by families. One indicator of this deterioration is the increase in the number of children skipping lunch. According to an estimate from the Ministry of Education, 112,848 school children – or 1.4 per cent of the total school population – were missing lunch in a reversal of the trend prior to the crisis.

The crisis did not affect child immunization rates in The Republic of Korea because families unable to afford private health services simply shifted to the public health institutions, illustrating the vital role that such institutions can play in the face of an economic crisis.

6. Government budget responses, social safety nets and lessons learned

The financial crisis that engulfed the four selected countries was a particularly serious challenge to the governments owing to its suddenness and the fact that it had not been foreseen, even by the international community. The inherent vulnerability of globalization had scarcely been realized till the crisis occurred.

There have been various forms of government response. There are macro economic policy changes, and, of particular relevance to this particular crisis, policies related to exchange control, currency management, monetary policies and fiscal policy. There are also the political responses to a crisis that was of so immense that it affected people's perception of governments and issues of governance and accountability, as well as policy dimensions.

However the main concern of this paper lies in the response of governments in the allocation of expenditures that have a direct bearing on child welfare and social development. The allocation of expenditure not only affects the immediate condition but also the medium- and long-term welfare of vulnerable groups, especially children.

6.1 Government budgets for the social sector and for children

This section compares priorities and changes in government spending on social development and protection during the crisis.

The Republic of Korea, Malaysia and Thailand have given high priority to the social sector in the last decade even prior to the crisis and attempted to maintain this priority during the crisis. There was a shrinking of expenditure immediately after the shock in 1997-98, but social spending expanded from 1999. Although these countries prioritized social sector spending even prior to the crisis, the effectiveness of this spending varied. For example, Malaysia and The Republic of Korea have been more successful in providing public services

such as health and education and ensuring a highly-skilled labour force. Thailand achieved relatively less in terms of educational provision and transformation, skills and innovation, with increasing societal disparity and decreasing social protection mechanisms. Malaysia and The Republic of Korea, with their more stable and well-managed technocratic governments seemed to manage better both in good times, with higher levels of socioeconomic development, and in times of economic crisis, with faster economic recovery and fewer social problems.

Overall budget cuts were evident in the first year of the crisis. The Governments of Thailand and Indonesia experienced large budget cuts in 1998 as a result of the crisis and reduced government revenue, as well as initial IMF prescriptions, with serious implications for social development and welfare allocations. In Thailand, the 1998 budget saw a 35 per cent cut for social services, a 26 per cent cut for agriculture, and a 27 per cent cut for science technology, energy and the environment over the previous year (Kittiprapas, 1999). Indonesia experienced the largest budget cut in its history with Government reductions in expenditure and the elimination of subsidies resulted in the collapse in domestic demand and deteriorating social conditions (Feridhanusetyawan, 1999).

After changed prescriptions on the fiscal deficit, all four countries resorted to both economic stimulus and social protection. Social sectors faced fewer cuts in the 1999 budget and expanded expenditure in 2000. In Thailand, some sub-sectors of social services received more funds from the budget, compared to 1998, including social and public welfare, and special target groups for development. In addition, the education sector received a higher allocation.

The Malaysian government increased its social expenditure from mid-1998, and again in the 1999 and 2000 budgets. Aggregate social services spending increased by 9.8 per cent in the first half of 1999 over the previous year. Education spending increased by 8.9 per cent, and agriculture and rural development spending increased by 5.9 per cent (Jomo and Aun, 2000, p.220).

The government's initial response to the crisis was a curtailment of educational expenditure; the government's programme of expanded access to schooling was curtailed because of the reduction of funds. But by mid 1998 the government adopted a counter cyclical fiscal strategy that restored expenditures on education and later increased such expenditure. The increase of budget expenditure on education by 28 per cent in 1998 and 8 per cent in 1999 are likely to reverse any adverse initial impact of the crisis and maintain access to schooling. The most likely impact on children's education would have been a compromise on the quality of education. However the reversal of policies ensured that such an impact would be avoided at least in the medium term.

In Indonesia – worst affected by the crisis – social safety nets became a critical concern. This was stressed in the IMF reform package. The first draft budget plan in 1998 pointed out that social expenditures were mainly allocated to subsidies (about 83 per cent). According to the plan, programmes for employment generation, education and health services accounted for 13.7, 1.0 and 1.4 per cent respectively. A significant proportion of the budget, Rp. 70.5 trillion or about 7.4 per cent of GDP, was allocated to the total social safety nets programme,

a ratio that is relatively high compared to other countries' spending in this area, and compared to the total Indonesian budget deficit of 8.5 per cent of GDP (Feridhanusetyawan, 2000, p 156-7).

Data from the 100 village surveys¹⁷ used in the study by Sueyahadi, et. al (2001) found that the 1998 social safety net programmes had not reached the target groups due to low coverage and loose targeting. However, according to Cameron (2000b), the education subsidy of the scholarship programmes seemed to be the most successful safety net when compared to health and nutrition programmes and particularly public work programmes.

Budget allocations for social programmes in The Republic of Korea increased by 34 per cent in 1999 compared to the previous year as the government responded to the crisis by introducing a comprehensive unemployment assistance package. In addition, spending was increased for public works for employment generation for the poor such as street cleaning, traffic control, parking guides and so on. The Government adjusted its budget priority by reducing military expenditure by 3.8 per cent in 1998 by issuing public bonds and by utilizing financial assistance from international organizations.

Comparing the governments' social budget priorities of these countries, we find that Thailand spent a relatively large portion on education in 1999 when it launched its education reform act. In 1999, about 25 per cent of the total Thai budget went to education, compared to 22 per cent in Malaysia, and 20 per cent in The Republic of Korea. In contrast, Indonesia spent only 7 per cent of its budget on education. Thailand is also ahead with health sector spending, which stands at around 7 per cent, compared to Malaysia's 6 per cent and Indonesia's 2 per cent. However, The Republic of Korea takes the lead with social safety net spending of more than 9 per cent, compared with 4 per cent in Thailand and 2 per cent in Indonesia. (ADB: Asia Recovery Report 2000: May).

In terms of budget allocation specifically for children, detailed data for Thailand indicate that its budget for child development has been protected during the crisis. As a result, the general effect of the crisis on budget allocation for children¹⁸ has been minor. The share of child development in relation to total budget and GDP increased from 14.85 per cent and 2.28 per cent respectively in 1990 to 19.81 per cent and 3.26 per cent in 2001. However, most of the child-related budget, such as that for education, covers administration and salaries (NYB and UNICEF, p. 49. 2000).

The impact on child development during the crisis can be considered from the aspects of both demand and supply. Although gross budgets for early child development centres were relatively constant during 1998-2000, they were unable to meet increasing demand for their services as family incomes declined. On the supply side, there were also limitations in terms of the number of centres and child-care workers, with no expansion during the crisis. It is expected, therefore, that government welfare expenditure per child declined.

¹⁷ This survey was supported by UNICEF and carried out by BPS.

¹⁸ Note: Child development budget (detail categories are in Annex A) is not a normal budget category. It is collected by NESDB for the UNICEF End Decade Review study. The government budget normally categorized by program sectors or agencies.

While the most serious affects of the crisis on children are more likely to result from family problems than the lack of direct government programmes, additional government programmes can ease the situation for vulnerable families, within limits. Thailand's government lunch programme fund, for example, can help only 30 per cent of children, though the proportion in need of its support is estimated at about 49 per cent and there are 1,924,202 more students who demand this assistance. Furthermore, children seem to reduce weight after their academic term finishes and they no longer receive school lunches. The proportion of underweight students increased from 7.9 per cent in 1996 to 11.84 per cent in 1997 and 12.29 per cent in 1998 (NYB and UNICEF, 1999).

However, aggregate data cannot show the severity of the problems for unreached groups. Therefore, Government programmes have to focus more on targeting such groups. As child community centres are normally established according to community capacity, very poor areas and families may not be able to access such services. In the transition period of decentralization to local authorities, quality and targeting of child care management and services will depend more on local organizations and participation.

One observation that can be drawn is that Thailand has spent a large portion on social sector, especially education and child development. The question is how effective the spending is when compared to the achievement of these goals and targets. The Republic of Korea and Malaysia have relatively better indicators on human resource development suggesting, therefore, that the focus should not only be on comparisons of social spending, but on the effectiveness of that spending.

6.2. Policy responses on social safety nets: strengths and weaknesses

All four countries had policy responses base on social safety nets to cushion the vulnerable during the economic crisis. However, the success of these programmes depended on internal mechanisms and determinants in these countries. Well-established systems, well-managed institutions, effective targeting and political will were crucial to their success.

The Korean social safety nets are the most advanced in the ASEAN countries and were established prior to the crisis – one possible reason for the country's ability to manage these nets effectively and mitigate the adverse social impacts of the crisis.

The Korean welfare system consists mainly of three components: 1) social insurance, 2) public assistance, and 3) social welfare systems. Social insurance was composed of unemployment insurance, industrial incident compensation insurance, health insurance and national pension system. Public assistance is basically a livelihood support programme, while social welfare targets the elderly, those with disabilities and young orphans (Kim, 1998).

Social policies during the crisis in The Republic of Korea were targeted at unemployment insurance, health insurance and livelihood support programmes. The Government launched a comprehensive unemployment benefit package, which included an expanded unemployment insurance system, a subsidized loan programme for venture businesses and a massive public

works programme. Although the package was costly for the Government, it appeared to have significant impact in providing relief to the families of the unemployed.

The country has also been relatively successful in steering the economy back on to a recovery path, as well as in adopting the right kinds of social protection. As unemployment was the main cause of income loss, unemployment relief was expanded¹⁹ very quickly in 1998, in addition to other comprehensive packages. Policies and programmes targeting the social impacts of the crisis cushioned the vulnerable from employment loss. Although claims for unemployment benefits increased sharply, they fell very rapidly when the economy started to pick up in 1999. The country's fast economic recovery and effective expansion of social insurance schemes kept the period of deepest economic shock comparatively short.

The expansion of unemployment insurance was implemented successfully to benefit small-scale business within 10 months in 1998. Unemployment insurance implemented in 1995-96 initially covered workers in firms with more than 30 employees, reaching about 45 per cent of total employees or 37 per cent of the total work force. Insurance was revised several times in 1998 in response to the crisis situation: in January coverage was extended to workplaces with more than 10 employees, in March to workplaces with more than 5 employees and in October to firms with fewer than 5 employees. In addition, the programme covered temporary workers (who had been employed less than 1 month), part-time employees (more than 18 hrs. a week), and granted extension to the previous year's expired benefits.

In comparison, Thailand has been slower to expand its social security scheme to cover small-scale enterprises. Initial programmes in response to the crisis covered workers in formal firms with more than 10 employees, covering only 16 to 17 per cent of the total workforce eligible for the scheme. The scheme was extended to cover enterprises with at least one worker in April 2002.

As a result of the crisis, severance payment was also increased from 6 to 10 months' payments in August 1998, although this is likely to benefit only those in the formal sector and large-size establishments, as most workers in small firms and the informal sector are not eligible. Those who are eligible may not receive this compensation due to poor enforcement of the regulations. A worker compensation fund was set up in 1999 to help employees who have not received compensation, but it has not been active.

In The Republic of Korea, the large expansion of unemployment insurance increased the number of firms insured under this scheme from 47,000 in 1997 to 309,000 in 1998, when the number of beneficiaries exceed 400,000 persons. Even in the case of bankrupt firms, the Wage Claim Guarantee Fund is intended to guarantee workers their due wages and retirement allowances.

As of late 1999, the ratio of unemployment benefit recipients to total unemployed was still low at about 12.5 per cent. The government aimed to increase the ratio to 20 per cent in 2000, and also expected 80 per cent of total workers to be eligible for employment insurance (Kang, et. al., 2001).

¹⁹ The unemployment insurance covering workers in firms with more than 30 employees was extended to cover those with fewer than 5 employees, in addition to other assistance to informal and temporary workers.

In contrast, Indonesia had the least advanced institutional social safety nets. And the new high-spending social safety nets introduced during the crisis were barely effective.

These programmes were expected to protect the vulnerable from drastic economic shocks and include programmes to ensure the affordability and availability of food, maintain the purchasing power of households and preserve critical social services with special measures to protect women and children.

The first draft budget plan of social safety nets in Indonesia was based on subsidies, which accounted for about 83 per cent of its total budget. Of this, 39 per cent was for fuel, followed by 20 per cent for food and 8 per cent for electricity, and a small share – 1 per cent – for medical subsidy. The BAPPENAS coordinated the whole programme which consisted of: 1) a food security programme; 2) labour intensive public works programmes; 3) social protection in health and education; and 4) the promotion of small and medium enterprises (SMEs). The programmes were later criticized for their failure to reach the poor, their slowness in releasing funds and their difficult processes, the existence of corruption, their poor design, lack of institutional capacity and poor coordination. These problems were raised in Feridhanusetyawan (2000) and Sigit (1999). The poor and inefficient management of these policy responses exacerbated the crisis in Indonesia.

However, one example of a relatively well-targeted programme in Indonesia is the scholarship social safety nets programme. A study by Cameron, 2000, which analyses the role of scholarship in reducing school drop-out during the crisis found that with good design and effective targeting, the programme could keep targeted students in schools.

In Thailand and Indonesia, a number of safety nets and government assistance programmes from international funds have been implemented during the crisis period, as well as regular government budget programmes. These programmes, in addition to restoring financial and economic sectors, are allocated to areas of health, education, public works and other social welfare schemes. Most of this spending, such as that on employment through public works, was not effective in targeting the poor, and aimed to cushion the adverse impacts of the crisis rather than introduce longer-term reform in social protection. The safety nets introduced during the crisis, such as economic stimulus programmes, are likely to be short-term measures rather than measures to ensure long-term social protection or employment generation.

As well as public works, the Government of Korea supported temporary livelihood protection, an innovative human resource investment project for vocational training and employment, directed to the relatively young and newly unemployed. Korean employment generating projects targeted the vulnerable with a training allowance that amounted to between 50 and 70 per cent of the minimum wage. In comparison, Thailand's public works programmes, paying minimum wage levels, could not screen the very poor workers.

In Malaysia, unlike in Indonesia, The Republic of Korea and Thailand, there is little doubt that the social impact of the crisis has been contained. The much better initial conditions, especially in relation to low levels of poverty, the resumption of economic growth in 1999 and therefore the short-lived impact of the crisis, and the policy responses to correct the

adverse effects in the short and the medium term, are likely to have left Malaysia's social fabric fairly intact. Unfortunately there are no data to support this contention or evaluate any impacts that the crisis may have had on the condition of children.

6.3 Lessons learned on social safety nets and crisis management

One lesson learned is that Countries with effective social safety net systems in place before the crisis have managed those nets more effectively during the crisis than those countries that had no such nets prior to the crisis. Therefore, such systems should be in place before a crisis strikes and act as effective long-term programmes.

Second, one weakness of existing safety nets is that they are unlikely to cover the majority of the population effectively. Consequently, many of the vulnerable have to rely on informal safety nets. Assistance programmes provided by families and communities can be the most immediate informal safety nets for the vulnerable. Therefore, social safety nets should complement family and community based coping mechanisms with more support from the private sector.

Third, there must be greater effort to overcome poor targeting of government measures. Targeting and effectiveness are crucial to the success of social safety net programmes.

One positive outcome of the crisis in these countries has been their realization of the inadequacies of their safety nets for the vulnerable, and the determination to make changes. In Malaysia this has resulted in the formulation of policies for the placement of safety nets to ensure the protection of the most vulnerable sections of society. The Republic of Korea had adjusted its social coverage programmes in good time. In Thailand, though the necessary adjustments have been slow, the government expanded the social security programme to cover enterprises hiring less than 10 workers in April 2002 and is considering a future unemployment insurance scheme.

Under the present circumstances of slow growth, a challenging task is to manage economic development along with social protection. The task is increasingly complex in the global economy as economic conditions can change very rapidly, leaving people exposed. A more interesting question is how to design social protection packages with the expectation of longer term economic downturn, when resources are also needed for economic stimulus and fiscal sustainability. Such a package should be designed within a comprehensive economic development framework to complement economic and social goals as well as to fit both short and medium - long-term goals.

For a short-term goal, effective employment is an important link between both economic and social protection goals. As employment has a direct impact on family relations, tensions, and also human rights, a sound employment environment would mitigate family problems and increase human dignity as well as generate national income. The proposed safety net package can protect the poor from the adverse effects of crises without compromising longer-term goals.

Social protection during economic downturn, for example, could be an economic stimulus and an automatic fiscal stabilizer, to contribute to macroeconomic stability as much as possible.

For medium-term goals, effective reforms and institutional issues are crucial to expand production, stimulate economies and tax revenue, and ensure human rights. These require reforms in financial sectors and institutional arrangements to prepare for global risks and social protection systems.

For long-term goals, the promotion of human resource development from the beginning of the life cycle would facilitate a healthy life and productive learning. Early childhood development and care is crucial for the long-term human resources and economic development of any country.

7. Conclusions and recommendations

One important observation that emerges from the comparative experiences of these four countries is that the initial conditions of children and the vulnerable groups prior to the crisis had an important bearing on the impact of the crisis. Where poverty was higher, basic services inadequate and the situation of a significant proportion of children was already unsatisfactory, the crisis had serious impacts on the well-being of children.

Among the four countries studied, the pre-crisis incidence of poverty were lower in Malaysia and the Republic of Korea. The evidence suggests that the deterioration in the conditions of the poor and of children was also less significant in these countries. In Thailand and Indonesia, in contrast, the crisis has had a serious impact on children's well-being in terms of nutrition, school drop out and increasing child abuse, prostitution and drug abuse.

In addition to the initial conditions, the vulnerability of the poor has also depended on the severity of the crisis and its duration in each country, as demonstrated by the contrasting experiences of Malaysia and The Republic of Korea. In Malaysia, the crisis was of a shorter duration with economic growth and employment generation underway as early as 1999. Rapid recovery enabled the country to sustain counter cyclical fiscal policy and spend an even higher proportion of its GDP on education and health. While The Republic of Korea's economic recovery was rapid, the social impact could not be reversed at the same pace. In Thailand, both the recovery and the mitigation of the impact of the crisis have been gradual while Indonesia seems to be grappling with both issues to this day.

In general, all four countries had neglected social safety nets on the presumption that overall economic growth would take care of social problems, reflected in the absence of government preparedness to tackle the impact of the crisis. The Republic of Korea alone had unemployment insurance and even that covered only the larger organizations and its sustainability became a fiscal burden during the crisis. There was too little recognition of the

inherent risks of a growth strategy based on globalization, or the need to make provision to contain the social ill effects of economic set back.

The crisis highlighted the weakness in policy framework to address social problems in Indonesia, Thailand and the Republic of Korea and delayed reactions or inappropriate responses increased their incidence and severity.

There are few macro-economic instruments to cope with such set backs even in economic terms. Neither the national governments nor the multilateral agencies could properly and adequately formulate a response to the crisis. They appear to have panicked and their initial responses and resulting confusion appear to have aggravated the crisis. It took some time before their responses became more fruitful as well as mindful of the longer-term needs for economic and social development.

The crisis demonstrated that public institutions and the state have important roles to play even in societies with robust economies. This role becomes especially important at times of economic crisis. The public education system and the public health system are vital components of a society that cares for its poor and children – a fact that should not be neglected merely because an economy is growing. These institutions, as well as safety nets, are crucial at the best of times, but even more so to protect expanded vulnerable groups at times of economic crisis and set backs as witnessed during the Asian crisis.

The social accountability and social responsibility of the private sector within a globalized market and liberal economic process also became critical. No longer could the government alone be held responsible for social development or the well-being of children and families. The traditional approach of private sector philanthropy and charitable contributions was, it appeared, no longer adequate. An innovative strategy mix of social investment and social safety nets needs to evolve, with the public and private sector playing complementary roles.

While the crisis exposed many weaknesses in economies and existing social protection systems, it also provided an opportunity for policy and programme reform. For example the issues of social safety nets and poverty have moved up the list of priorities of many national and international agencies. Many programmes in health and educational reform are now underway, coupled with decentralization of government and administration. Family and community safety nets and the strengthening of social capital – both highlighted during the crisis – are increasingly recognized as measures to cushion the blow of an economic crisis.

One recommendation from this study is that programmes for child development and protection should have specific categorization in budget programmes. This study reveals the difficulty of obtaining budget data on child development from all four countries. It would be useful, therefore, for the analysis of programmes for children, their costs and their effectiveness, if every country had budget categories for child development and protection.

One by-product of the globalization process is an increasing focus on human rights – and child rights in particular. It is clear that a paradigm shift from social welfare to human (child) rights for assuring survival, development, and protection has begun. As UNICEF and its partners promote child rights, related issues such as poverty reduction and gender disparity

are becoming ever more prominent. Social policy to shift resources from the advantaged to the disadvantaged groups in the society has also become an important strategy to eradicate social exclusion. While a comprehensive development framework of social policies is essential, effective targeting mechanism and monitoring are also required to ensure that the benefits reach those who need them.

In this connection, social policies should be prioritized towards broader human development with an emphasis on education and health and human resources should be treated as the foundation for sustainable social, economic and political development. Investment in children should be recognized as the most certain path to achieve short-term and long-term benefits and would further the agenda on human rights in general and child rights in particular. Children must be placed at the centre of the social development agenda and their rights, needs and interests should be pursued with the active participation of children and young people in the development process.

It is crucial that government budget allocations for child rights, survival, development, protection, and participation should be explicitly protected during fiscal reform, especially for the most vulnerable children and particularly during times of crisis. It is essential to consider public spending priorities when new social policy is developed, prioritizing children and based on child rights. Not only the allocation, but also the appropriate uses and effectiveness of budgetary resources should receive close attention.

A key challenge that emerges from the economic crisis of East Asia is the need to manage globalization to maximize the benefits for the vulnerable, including children, and minimize the adverse effects and risks. This must be achieved within the context of disparity reduction in society and sustainable economic growth. The well-being of children could be at stake, given the highly uncertain economic prospects under globalization. A thorough analysis is essential to examine the possible positive and negative impacts of globalization and to design strategies to grasp the benefits and opportunities while reducing the risks and hazards.

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CHAPTER 9: FINANCIAL INSTABILITY AND CHILD WELLBEING: A COMPARATIVE ANALYSIS OF THE IMPACT OF THE ASIAN CRISIS AND OF SOCIAL POLICY RESPONSE

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