

# **The National Patterns of Unemployment Policies in Two Asian Countries: Malaysia and South Korea**

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# Foreword

This publication comes out of the *Strategic Program for Research on Globalization and Internationalization: welfare, work, legitimacy and globalization*, at the Stein Rokkan Centre for Social Studies at Bergen University Research Foundation. This program is designed as a University of Bergen research network, and its primary area of activity is the study of changes in *welfare and labor market institutions* as they are played out in the debate on globalization and internationalization.

Issues of distribution, regulation and fairness are central to the program, which incorporates research in sociology, political science, economics, history and philosophy. One basic premise for program research is that focusing on welfare and labor market institutions can provide important insights into other areas of society and that it can also shed light on other globalization issues, such as the status of the nation state and conditions for democratic governance.

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# Introduction

The Asian financial crisis started in Thailand in 1997 and reached almost every country in Asia, thereby bringing about a great socio-economic impact on the countries of this region. The rapid increase in mass unemployment and the consequential increase in poverty following the financial crisis were among the most challenging policy tasks for these countries. The number of unemployed increased dramatically in such countries as South Korea, Malaysia and Thailand, which were highly praised as successful cases of rapid economic development, yet in which the number of unemployed increased by about 0.9 million, 0.7 million and 1.4 million<sup>1</sup> respectively from 1997 to 1998.

Although it is true that these countries have maintained a good track record of low unemployment compared to other parts of the world over the last two decades, they have not been immune to the problems of unemployment. Malaysia suffered from high unemployment during the period between 1986 and 1988, as did South Korea in the early 1980s, and the governments responded to those problems with a wide range of measures (Table 1).

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<sup>1</sup> The figure for Thailand includes both the open and the passively unemployed, 13 years of age and above, who were available for work but did not work at all. The open unemployed increased from 0.14 million in 1997 to 0.46 million to 1998. The official unemployment rate of 3.2 and 3.4 percent in both 1998 and 1999 (see Table 1) for Malaysia masked the accumulated number of the unemployed just after the financial crisis since it was estimated at a certain point in time after the implementation of counter-unemployment policy which will be explained later.

**Table 1.** Trends of Unemployment Rate in Selected Asian Countries

	'80	82	84	86	88	90	92	94	96	97	98	99	'00
Hong Kong	3.8	3.6	3.9	2.8	1.4	1.3	2	1.9	2.8	2.2	4.7	6.2	4.9
Indonesia				2.7	2.8	2.5	2.7	4.4	4.9	4.7	5.5	6.4	6.1
Japan	2	2.4	2.7	2.8	2.5	2.1	2.2	2.9	3.4	3.4	4.1	4.7	4.7
South Korea	5.2	4.4	3.8	3.8	2.5	2.4	2.4	2.4	2	2.6	6.8	6.3	4.1
Malaysia			5.8	8.3	7.2	5.1	3.7	3	2.5	2.4	3.2	3.4	3.1
Philippines	4.8	5.5	7	6.4	8.3	8.1	8.6	8.4	7.9	9.6	9.4	10.1	9.8
Singapore	3	2.6	2.7	6.5	3.3	1.7	2.7	2.6	3	2.8	3.2	3.5	3.1
Taiwan				2.7	1.7	1.7	1.5	1.6	2.6	2.7	2.7	2.9	3
Thailand	0.8	2.8	2.9	3.5	3.1	2.2	1.4	1.3	1.5	1.5	4.4	4.2	3.6

Source : IMF World Economic Outlook . ILO LABORSTA. <http://laborsta.ilo.org>. Dept. of Labour, and Central Bureau of Statistics, Indonesia (BPS, Sakernas Survey, 1997–2000). OECD Main Economic Indicators. National Statistical Office, the Philippines, Integrated Survey of Households, Manila, NSO. Thailand: Statistical Appendix, IMF Country Report No.01/155 (August 2001).  
<http://www.mom.gov.sg>. <http://www.info.gov.hk/hkecon/labour/index.htm>

**Table 2.** Unemployment in Malaysia and South Korea

		1995	1996	1997	1998	1999	2000	2001
Labour Force (thousand)	MA	8,257	8,641	9,038	8,849	9,178	9,573	9,892
	KO	20,853	21,243	21,662	21,456	21,634	21,950	22,181
the Number of the Unemployed (Thousand)	MA	256.0	216.0	216.9	277.0	308.2	301.3	357.0
	KO	420	426	556	1,461	1,353	889	819
Unemployment Rate (%)	MA	3.1	2.5	2.4	3.1	3.4	3.1	3.6
	KO	2.0	2.0	2.6	6.8	6.3	4.1	3.7

Source: the Ministry of Finance (each year), *Economic Report*, Kuala Lumpur, the Ministry of Finance, Malaysia. The National Statistics Office, *Survey on Economically Active Population*, Seoul, the National Statistics Office.

How have the governments of these rapidly growing economies responded to their unemployment problems? Have their policies shared a certain pattern related to their rapid economic growth?

In order to address these questions Malaysia and South Korea are singled out for several reasons. First, they were typical examples of rapid economic growth in the NIEs and the so-called second generation of NIEs in South East Asia before the Financial Crisis. Until the financial crisis they had showed a good performance on the

management of macroeconomic imbalance while avoiding widening income inequality and reducing absolute poverty relatively well compared to other developing countries. In particular these two countries' performances on the stabilisation and structural adjustment programmes in the 1980s, which had no adverse effect on employment and poverty, were widely hailed as successful cases (Azizur Rahman Khan, 1994: 22). Secondly, they were the ones amongst countries which have suffered the highest unemployment rates with outstanding records of reducing an unexpectedly high magnitude of unemployment in a short time span. Malaysia maintained its unemployment rate at more or less 3 percent after the financial crisis (Ministry of Finance, 2000) while Korea, where the unemployment rate reached a record high at 6.8 percent in 1998, soon recovered to 3.7 % in 2001 (the NSO, 2002) (See Table 2). Thirdly, both countries have been praised as examples of successful cases of state interventionist economic management. Korea, as one of the «four little tigers», has been known as a typical case of a developmental state and Malaysia, as one of the second generation of emerging Asian economies, has been considered as the most enthusiastic emulator of the developmental state (Lubeck 1992: 177).

These two countries, however, also have various contrasting points (Edwards 1996: 312–3). First, they have quite different natural endowments, which made a significant difference in their industrialisation processes. Secondly, they have quite different colonial experiences, which significantly affected their industrial structure and educational systems. Thirdly, the geo-political situation of South Korea differs considerably from that of Malaysia and this determined the land reform process, aid, rural–urban and agriculture–industry relations. Fourthly, while Korea has been on the track of democratisation since 1987, Malaysia is still considered a «semi-democracy» synthesising both elements of political liberalism without full democracy (*dictablanda*) and democratic procedures without liberalization (*democradura*) (O'Donnell and Schmitter 1986: 6–14, Case 1993a: 186). Last but not least, the ethnic profile is significantly different between the two countries; while ethnic division is deeply entrenched in Malaysia, South Korea is very much homogeneous in terms of ethnicity.

Given their similarities and contrasts, these countries provide interesting cases for the analysis of the pattern of unemployment policies of a rapidly growing economy. How have these rapidly growing economies formed and developed the unemployment policies and what is the nature of these policies? What is the nature of the relationship between the unemployment policy and the economic growth? How have they been changed within the context of economic globalisation? Are they converging or diverging? Answering these questions will provide us with important insights for the understanding of social policy development in late developing countries.

# Theoretical Framework

Policy measures for unemployment comprise a complex set of programmes to prevent or counteract the undesirable socio-economic, political and psychological consequences of unemployment. These policies have been classified into two kinds of social science: the economic intervention and the social intervention of the government.

The government's economic intervention through monetary, fiscal and wages-income policies is based on the belief that appropriate macro economic management could prevent or at least minimise unemployment. Although this belief gained currency through the elaborate theorisation of demand-side management by J.M. Keynes and his school, the idea of government intervention into the market to prevent unemployment had already been prevalent in some European countries such as the UK before Keynes (Rowntree 1923).

Social intervention of the government is based on the idea of the state's responsibility to alleviate the sufferings of the unemployed through public welfare provision. This state responsibility has been the core of the welfare state. The introduction of the «social right» dimension into citizenship led the state to establish various normative principles of modern welfare states (Marshall and Bottomore 1992) and to tackle a variety of problems resulting from the market failure without a significant degree of distortion of the market. Obviously one of the major problems was unemployment, as Beveridge rightly pointed out. The government established various programmes of social intervention aiming at mitigating the worst consequences of unemployment through employment creating measures such as public job creation, job maintenance subsidies and vocational training, and income compensation measures such as unemployment insurance benefits or public assistance in cash and kind designed to guarantee a stable livelihood.

Well known concepts such as the Keynesian welfare state/Schumpeterian workfare state, passive/active labour market policies and welfare-to-work or workfare were conceptualised to describe and explain various programmes of the government's intervention to counteract unemployment in both normative and practical senses. Recent debate between the old and new, or, to put it bluntly, the defenders and attackers of the welfare state, dealing with a wide range of issues from social right to efficient allocation of resources, mostly drew on these typologies as their conceptual framework.

Despite numerous analytical benefits offered by these typologies or «characteristic forms» many issues remain unresolved. First, there are definitional problems. Workfare or welfare-to-work, as Kildal (2001: 1) rightly put it, is so vaguely and broadly conceptualised that important distinctions and normative issues such as differing extents of reciprocal obligation and policy implications of different activities in different

countries may not be presented as discernable forms. This is also the case for active labour market policies. Active labour market is an umbrella concept indicating a wide range of policy measures except traditional benefit provision (i.e. passive labour market policies), which is too broadly defined to discern the different implications contained in welfare to work or workfare. Secondly, there is the problem of presupposition of income maintenance welfare programmes. Discussions on the unemployment policies drawing on those typologies are more often than not based on the presence of the welfare state in the most residual sense, that is, the explicit public attempt to alleviate poverty as a social right (Goodin 1998: 6). The conceptual framework of these typologies presupposes that the welfare state's efforts transform or shift the emphasis from the benefit-based approach to the active labour market approach, particularly for workfare programmes. This suggests a potential pitfall in the application of these conceptual frameworks to some countries which do not have a specific programme for the unemployed to qualify them as «welfare states». Given the fact that in Asia there are only four countries which have such programmes for the unemployed<sup>2</sup>, the explanatory power of those frameworks is limited.

These problems arose from the assumption underlying those conceptual tools that policy attempts to alleviate or correct the consequences of market failure, particularly unemployment, can only be found in the dimension of redistribution activities of the public policy. However the policy attempt to alleviate the consequences of market failure or correct the market failure, in other words the policy to protect social security, can be made in other dimensions of public policy, i.e. those activities of efficiency and stabilisation of the public policy (Musgrave 1959, Boadway 1997: 754-755).

The recognition of the presence of multiple dimensions of the unemployment policies helps us to understand the different aspects of the unemployment problems. As we can see in the multiple dimensions of the unemployment policies, unemployment itself has qualitatively different kinds of consequences. As an attempt to enhance our understanding of unemployment, we suggest three dimensions of security pertaining to unemployment which are faced by both workers and the unemployed.

Both the employed and unemployed anticipate or experience at least three dimensions of security loss to differing degrees depending on their socio-economic conditions. First of all, the loss of the income security which the programmes of the benefit-based approach had aimed to protect can be perceived very differently by individuals. Those who can rely on other family members may feel the income loss less painfully than those without families or a breadwinner. The breadwinners' unemployment could bring about a dire situation for the whole household and he or she is more likely to suffer the income loss than those with other family members they can rely on. For a poor household with a disproportionately high number of the very young and old dependents, what is urgently needed may be income transfers rather than job training or job provision programmes (Varisa 1980: 202).

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<sup>2</sup> According to the ILO report as of 1998 only four Asian countries – China, Mongolia, South Korea and Hong Kong, China had any form of unemployment benefit scheme. See <http://www.ilo.org/public/english/bureau/inf/pkits/wlr2000/wlr00ch3.htm>.

The unemployment of single mothers on welfare was a hotly debated issue in the United States in the 1990s. The work requirement or workfare condition of AFDC was established upon the premise that single mothers on welfare benefits can get jobs and those jobs could provide them with adequate earnings to support families. The study shows that two assumptions are groundless (McCrate and Smith 1998). The availability of jobs for single mothers was very limited, and the single mother's employment did not provide them with adequate earnings, that is, earnings sufficient to pay for basic necessities. To them a protection for job security is not a long-term solution for income loss unless there is a fundamental change in the market condition. For single mothers sufficient income security to keep them out of poverty is more needed than job security, since this conditions their access to work (Gray 2001: 200)<sup>3</sup>. Grover and Stewart (1999) clearly show how both the British Conservative government of the early 1990s and the current Labour government threatened the income security of single mothers by following an employment-based approach in which they deliberately engineered downward pressure on wages through the provision of in-work benefits.

The structure of the welfare provision system also significantly affects the income consequences of the unemployed. In a country where workers can benefit from basic welfare services, such as health, housing, education and pensions from companies, unemployment may be detrimental to their livelihood. These workers suffer larger post-unemployment standard of living declines than workers who are provided with basic welfare services under the universalist type welfare system (encompassing the entire population regardless of employment records). For those workers protected by an occupational welfare-centred welfare system, unemployment means a loss of welfare security as well as income security. Gaining jobs without such welfare services packages does not guarantee the standard of living they used to have. Thus employment security does not necessarily guarantee welfare security. On the contrary in a country where the welfare provisions are universal, and not attached to employment, the unemployed could endure the income consequences of unemployment more easily than those in a country where an employment related welfare provision system is prevalent. To these people, income security may be more important than employment security.

The job security, which the programmes in the employment-based approach are aimed to protect, also entails different implications to individuals. The nature of unemployment consequences and the needs of the British miners in the late 1970's may be somewhat different from those in the information technology industries. The laid-off miners who could not find jobs in the declining mining industry lost the opportunity to use their skills, knowledge and experience (accumulated human capital), as well as their income. They were forced to take up jobs in other trades, which would provide them with less wages than they used to have. The guarantee of job security in another trade cannot satisfy their needs for the employment security in their own trade. The case of Swedish active labour market policies shows how the workers perceive the guarantee of

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<sup>3</sup> Gray points out that the access to work is also contingent on the availability of child-caring-friendly jobs for mothers. *ibid.* 200.

job security differently. In the late 1970s and the early 1980s, the Swedish economy went through an industrial restructuring stage. Facing the risk of the collapse of the companies, Swedish workers made a strong demand for the security of employment at the existing place of work. The flexibility of the labour force had already been greatly reduced in the course of increasing house ownership and working wives. They did not want to have a job in other areas where jobs in other trades were guaranteed but to retain their employment (Henning 1984: 207–8). The government did not pursue the protection of job security but of employment security by supporting companies which had been widely known as being on the brink of collapse. The main purpose of this policy was not to protect the job security but the employment security. The industrial policy consideration for the structurally correct adaptation and long term profitability also played a significant role in choosing the security of employment rather than job security on the labour market.

From the above discussion, three dimensions of security emerge; job security, income security and employment security. Job security is guaranteed when the policy facilitates the entrance of the unemployed or the transfer of workers from one trade to another. Employment security is guaranteed when the policy protects the accumulated human capital and social capital of workers. Income security is guaranteed when the policy provides the recipients without compulsion on the recipients to work.

Apart from these three dimensions of security, in order to enhance our understanding of unemployment policy we need to analyse the dimensions of security on at least two levels: recipients and providers. To identify the dimensions of the security threat or loss which both the employed and the unemployed experience is one thing and to explain the nature of the policy response is another. The fact that the political management of the unemployment problem by Mrs Thatcher in the late 1970s and the early 1980s, in which the unemployment issue was placed in a different order of priority, clearly shows the importance of the problems of recognition, interpretation and policy design (Henning and Richardson 1984: 4). To look at how those problems were recognised and interpreted by the policy authority is as important as what those problems really were.

Here we will only focus on the question of which security goal has been given priority in the policy choices and which dimension policy measures of both countries have actually been protected.

We divide the following section into two, one part each for Malaysia and Korea. Each section will be periodised reflecting the country's socio-economic and political development. Given the significance of the Asian Financial Crisis, the year 1997 will be set as a distinctive point to compare both continuities and discontinuities in policy response to unemployment in both sections.

# Malaysian Policy responses to Unemployment

## Development of Social and Labour Policy Under British Colonial Rule

During the colonial rule the British colonial government responded to the shortage of labour in the tin and rubber industries by allowing neighbouring Chinese and Indians to migrate to the Malaysian peninsular. While Malay aristocrats enjoyed better political and socio-economic status as civil servants under the British colonial policy of indirect rule, most indigenous people, Malays (or Bumiputera in Malay terms), led a poor life dependent on the agriculture of paddy rice. Although to a very limited extent, social policy and labour policy were established within this colonial context.

One of the most serious challenges to colonial government was the increasing labour movement during the 1930s. Malaysia together with Myanmar had the most advanced labour movement in South East Asia during the 1930s (Thomson 1947). After the Trade Union Bill was passed in 1940, trade unions began to emerge in the tin and rubber industries, and union members were almost entirely Chinese in character, in membership and particularly in leadership, organised by the Malayan Communist Party (Gamba 1958: 118). However this labour movement was gradually declining under the British colonial government's dual policy to counter the Communists' bid to control labour from the late 1940s. On the one hand the British government directly and indirectly involved itself in the labour organisation and tried to develop «democratic and responsible unions» (Parmer 1955: 33). On the other they took a stern stance against the communist attempts to control labour (Thomson 1951). The strong counteraction of the British reached its peak in 1948 when the British government declared an Emergency Regulation to quell violent communist revolts. The impact of the Emergency Regulation was so detrimental to the emerging labour movement that a third of trade unions ceased to function and most trade union leaders fled to the jungle.

Since 1950, the labour movement regained strength under British guidance. In 1951 the Malay Trade Union Congress (MTUC) was established and its membership increased rapidly from only 43,000 in 1951 to about 121,000 in the Federation and 68,000 in Singapore (Gamba 1954: 28).

The establishment of two major employers organisations, the Malayan Mining Employers' Association (MMEA) in 1946 and the Malayan Planting Industries Employers' Association (MPIEA) in 1947 marked a new beginning for industrial relations by opening collective bargaining on the Malaysian peninsula. However the issues dealt with during the collective bargaining process were very limited and the employers dominated the collective bargaining process.

Social welfare programmes were established within this dual labour policy context. Before the Second World War the basic welfare to workers, such as hospitals and state schools, were provided by the employers of large plantations and mining companies. In

1940 when the British Colonial Development and Welfare Policy was established, this direct welfare provision by employers was changed to an indirect one through taxation on the employer (Benson 1943: 392–3). After the Second World War the colonial government extended this health care provision to rural areas as part of the overall development policies and as a strategic measure to counter Communist insurgency. (Barraclough 1998: 54)

The Employees Provident Fund (Kumpulan Wang Simpanan Pekerja) was established under these circumstances in 1951 under the general direction of social policy for the British colonies of the British Actuary's Department<sup>4</sup>.

It was a compulsory saving scheme primarily for the security to its members for old age retirement. Both employers and employees were supposed to contribute 5% of the employees' wage, and members could withdraw this money when they retired<sup>5</sup>. The majority of the Fund's members were Chinese and Indian salaried and waged workers who were more familiar with the rotating credit associations' regular contributory and lump sum withdrawal elements than the insurance type protection scheme (Ardener 1964). Since it was a benefit scheme for the employees' retirement, the purchase of housing and medical services, it did not have an element to provide benefits to the unemployed. Chinese and Indian workers in the tin and rubber industries did not care much about unemployment benefits since they would eventually return to their home countries where they had dependents, as many of them did during periods of depression (Kleinsorge 1957: 158)

Although there were some improvements in working conditions through the legislation of the Weekly Holiday Act of 1950 and the expansion of the Labour Code, workers did not have a good standard of living. Although there was a demand from the MTUC for elementary social services, more education, decent housing, early fulfilment of the Employment Code and educational courses in trade union organisations, these demands for social security measures were rejected outright by the Legislative Council (Thomson 1951).

The British colonial government was only concerned with workers employed by the British employers, and the abundant unemployed people who came to urban area for jobs were not perceived as a problem but as a good business condition, as long as they did not cause serious social disorder.

In 1955 the legislature was transformed from a fully appointive body to a majority of elected positions; the Alliance party, composed of the United Malays National Organisation (UMNO), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), took over the legislature and had decision making power to a certain degree, under the leadership of Tengku Abdul Rahman. This was a marriage of

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<sup>4</sup> For the British Colonial Office's influence on the design of the welfare provision system in British colonies, see Leonard P. Fletcher (1976) «The Provident Fund Approach to Social Security in the Eastern Caribbean», *JSP*: 17.

<sup>5</sup> The Singaporean Central Provident Fund, established two years later than the EPF, had a similar system and contribution rate of employers and employees, 5% of employee's monthly wage for both employers and employees. See Kwon 1998 and Tremewan 1998.

convenience between the Malay upper class and Chinese and Indian capitalists who accrued wealth during their stay on the peninsular.

## **From Independence to the Malays Racial Riot (1957–1969)**

Since gaining independence in 1957, the social tensions between Malays and non-Malays (Chinese and Indians) arising out of economic injustice have been among the most serious problems in the ethnically plural society of Malaysia. The poverty, widespread among Malays who were relatively low educated, rural based and unemployed compared to non-Malays, should be addressed as soon as possible (Visaria 1980). Under these circumstances, the alliance government considered industrialisation as the best solution, and overseas investment was seen as the answer (Runder 1973: 30). The national economic growth was thought to save the poor Malays from poverty through employment in newly expanded industries. An economic growth strategy, rather than a redistributive strategy, was the policy chosen to enhance the welfare of the Malays.

The government took their first industrial initiative, the Pioneer Industries Scheme, in 1957. Under the Scheme, member companies were provided with favourable tax treatment and other incentives. Through this industrialisation plan the government pursued a specific employment policy to protect the Malays' job security. The government demanded an employment quota in which a certain percentage of employees working for the companies of the Pioneer Industry Scheme should be Malays as a condition for the recognition of Pioneering Industry status. The government employment policy was very much interventionist with a strong ethnic flavour. It was generally agreed that this government policy was not very effective in terms of reduction of Malay unemployment and poverty, mainly for two reasons. Firstly, there was too much migration of Malays from rural areas to urban areas. The jobs newly created in the pioneer industry were not enough for those migrant Malays. The increase of jobs in developing sectors such as building and construction also simply could not cope with the rapid increase of rural Malay migrants, which made Malaysia the most highly urbanised nation in South East Asia in the 1960s (Sendut 1966: 484–5). Secondly, there was an informal but very systematic barrier against the Malay's entry into Chinese or Indian owned firms.

The Malays who became employed did not enjoy a high standard of living either. The government called on workers to accept reduced wages in order to attract overseas investment. Although there was a strong demand for a statutory minimum 'living wage' from the opposition party, the government, preoccupied with the priority of attracting of overseas investment, rejected it outright (David 1962: 941–3, 945–6, quoted in Rudner 1973: 35).

As the industrialisation process continued, wage stability became one of the main goals of the labour policy. Emerging trade unionism in the tin, rubber and transportation industries was suppressed in this context and the repression reached its peak in 1959 when the Trade Union Ordinance was established. Under the Ordinance, labour organisations should be organised along the line of occupation or trade, and the

government had the authority to check over trade union finance and to investigate their internal affairs. It was a significant obstacle to the emerging trade unions, still decentralised and powerless.

The wage issue was significant in a practical sense since the Federal government was the country's largest single employer of manual labour<sup>6</sup>. The government not only maintained low wages for employees of government owned companies but also tried to compel other private companies to conform to the government's income policy.

The government response to unemployment was in line with their industrialisation policy. Although there was cyclical and seasonal unemployment, the government considered it as a result of population growth which would be resolved through economic expansion (Addresses by Minister of Commerce and Industry, L.C./D.R. Proc., 11 July, 1956, col.1355; and Prime Minister, 30 November 1959, col. 657-8 quoted in Rudner, 1973, 36). Thus they did not establish a specific unemployment policy other than the employment policy for Malays. There was no manpower planning and no policy goal to maintain full employment. As Rudner rightly pointed out, the industrialisation, 'originally conceived as a means of absorbing unemployment was transformed into a goal of the policy, which precluded the maintenance of short-term full employment. It was a policy of inaction, a policy of «no-artificially-maintained levels of employment' (Rudner 1973: 36).

As the tin and rubber industries had a cyclical recession in the late 1950s and the early 1960s the seasonal or cyclical unemployment became a social problem. The trade unions and opposition parties strongly demanded a full-employment policy and the establishment of an unemployment benefits system. The federal government responded to this with a policy to create some relief work projects. However this relief work was not provided in the hard-hit tin and rubber areas since the government, focusing on industrialisation rather than on the maintenance of full employment, feared that such work projects could redeploy labour away from their normal employers (Rudner 1973: 36).

The government was still preoccupied with the idea of subordinating labour to the general industrialisation plan even under the relatively good economic conditions. In 1963 although acknowledging the high unemployment, the Prime Minister still argued that economic growth under the Second Five Year Plan would solve the problem (Prime Minister, D. R. Proc., 23, May 1963, col. 126, Rudner 1973: 36).

Although there was not a much progress in terms of the organisation rate of the trade unions<sup>7</sup>, the confrontation with Indonesia over territorial conflict provided the trade unions a good opportunity to enhance their bargaining position in early 1963. In order to mobilise workers, the government took a much softer stance against the labour

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<sup>6</sup> In 1957 the Federal government's employees (excluding the armed forces, municipalities and public enterprises) accounted for about 5% of the total labour force (2,126,182 ). This compared to 614,000 in the rubber industry.

<sup>7</sup> By the end of 1962 only about a quarter of the non-peasant labour force was organised in trade unions. See International Labour Office (1962) *The Trade Union Situation in the Federation of Malaya*. Geneva: ILO: 33.

in many sectors of industry, particularly in the railway service industries, and the government even increased the wages and fringe benefits of workers in the railway service industry. It is notable that although there was no legislation on the national minimum wage the government made implicit a bottom line of wages by directly ordering east coast employers to increase wages (Rudner 1973: 43).

However the government's moderate stance did not last long and repressions of labour became severe as the territorial conflict died down. New restrictions on the trade unions were established, and these measures were formally institutionalised in the 1967 Industrial Relations Act.

The government's effort to promote national industrialisation mostly concentrated on import-substitution (IS) industries. Responding to the government efforts, net output in the IS manufacturing sector in Malaysia grew rapidly from 9 percent of the total GDP in 1960 to 13 percent in 1970, and manufacturing employment grew from 6.4 percent of total employment in 1957 to 11.4 percent in 1970 as the manufacturing sector grew (Hoffman and Tan 1980, Appendix AII. 1).

However the nature of government support prevented further growth of manufacturing employment (Standing 1996: 41). The government support concentrated on the business of assembly, packaging and final processing of finished goods – previously imported from abroad for the domestic market. Those industries had weak links with the rest of the national economy which could have generated employment capacity.

The government's policy could not generate the incentive for skill development. Under the highly effective protection for import substituting industries, companies merely packaging and assembling imported components for sale in the domestic market could make high profits as long as they had abundant manual workers. They were under no pressure to learn technology or skills (Jomo and Edwards 1993: 24).

The industrialisation pace was slackened after the mid-1960s because of the domestic market saturation, and the contribution of manufacturing to the GDP remained small, at around 9 per cent in both 1960 and 1964 (World Bank 1983: 6). The low capacity of industries to absorb the labour force was another problem of ISI and the unemployment figure reached about 8.0% in 1970.

Despite a certain degree of economic growth thanks to foreign direct investment during the IS industrialisation drive, income inequalities increased especially among Malays and poverty remained widespread (Pang 1983: 317). This was one of the major factors for the reduction of support for the ruling alliance coalition and its worst electoral performance ever in the 1969 general election, and it led to ethnic clashes on 13 May 1969<sup>8</sup>. Although these took place only in Kuala Lumpur, the Malay authorities received a great shock since the clashes were due to the discontent of urban Malays who

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<sup>8</sup> The proximate cause of the Kuala Lumpur riots was the rude taunting of Malay bystanders by Chinese and Indian celebrants during an opposition victory parade. The underlying reasons for the transformation of petty brawl into subsequent virulent racial riot were Malay dissatisfaction with the slow pace of their economic improvement, anger at the non-Malay challenge to the primacy of the Malay political leadership, and frustration at the non-fulfilment of Malay cultural aspirations. Stephen Chee (1974) «Malaysia and Singapore: The Political Economy of Multiracial Development», *Asian Survey*, 14 (2, A Survey of Asia in 1973): Part II.

were the major constituent of the government. The racial riot gave the government an urgent message that they needed a new strategy for the Malays.

## **The NEP: Economic Growth through Racial Economic Balance**

To alleviate the discontent of the Malays, the government under the leadership of Tun Razak, the leader of the Barisan Nasional (BN), the enlarged coalition government with a merger of several opposition parties, launched the New Economic Policy (NEP) which coincided with the government's Second Malaysia Plan (1971–1975).

The NEP had two proclaimed objectives. Firstly, «to reduce and eventually eradicate poverty irrespective of race» and secondly, «to restructure Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function» (Second Malaysia Plan 1971–1975: 1–10). The establishment of the NEP therefore showed that the government emphasis shifted from a general economic growth policy with supplementary affirmative programmes for Malays to the enhancement of the Malays' economic status. They believed that once the racial imbalances of economic well-being were evened out through the NEP, the economic growth would be guaranteed (Chee 1974: 183).

The policies which the government implemented to eradicate poverty and restructure Malaysian society were based on the idea that the poverty of the Malays was due to their high concentration in rural areas, marked by high unemployment and low productivity, and low concentration in the higher income commercial and industrial sectors (Mehden 1975: 254). Therefore policies aimed at restructuring the labour market in order to increase the representation of Malays in the non-agricultural sector were established. In addition, policies were established to improve the poor quality of life of the village poor and to motivate peasants to work harder through the provision of basic amenities (Mehmet 1982: 978, Shamsul 1983: 465). In particular, programmes were launched to provide and improve basic amenities in rural areas (involving the construction of village mosques, bus sheds, bicycle paths and community halls, road reconstruction, provision of piped water, electricity, low-cost housing, postal and telecommunication service, health facilities, and so forth) to reduce the underemployment and unemployment in these areas. Racial quotas for employment at all levels (i.e. the increase of Malay labour participation, especially at the supervisory and executive levels) and the expansion of tertiary education opportunities for Malays were also established in order to address the imbalanced ethnic profile of the unemployed. The establishment of the Free Trade Zones (FTZs) of 1971 in which the firms would have special support from the government played a significant role in increasing the employment of the Malays (Rajah Rasiah 1996: 136).

The Social Security Act of 1969 was legislated in order to improve the basic livelihood of workers of the low-waged sector. Under this law employees earning below a specific amount should be registered and contribute to a fund called SOSCO regardless of their employment contract types. This would provide employees with such benefits as invalidity pensions, invalidity grants, survivors pensions, rehabilitation

benefits, funeral benefits, constant attendance allowance and educational loans. The employers paid on average 1.75% of the wage for the Employment Injury Insurance Scheme and the Invalidity Pension Scheme while the employee paid 0.5% of their wages to the fund for the Invalidity Pension Scheme. In 1971 the Social Security Organisation (PERKESO, Pertubuhan Keselamatan Sosial) was established to implement this system. It was a system designed to protect the low waged Malays' income security since the Malays accounted for the majority of workers of the low waged sector.

**Table 3.** *Changes in Employment Structure by Ethnicity*

	1970	1990 Target	1990 Achieved
Sectoral Employment	%	%	%
<i>Malays</i>			
Agriculture	66.2	37.4	29.0
Secondly	12.1	26.8	30.5
Services	21.7	35.8	40.5
<i>Non-Malays</i>			
Agriculture	33.5	27.1	14.0
Secondly	28.7	28.7	39.5
Services	37.8	44.2	46.5

*Source:* Malaysia, Ministry of Science, Technology and Environment (1991: tables 2–7) Quoted with a modification in Rasiah, 1997, 128.

The NEP, reflecting the strong will of the government to protect job security for the Malays, achieved a certain degree of success. The incidence of poverty for Malays reduced dramatically from 74% in 1970 to 23.8% in 1990<sup>9</sup>. The change in the Malays' employment structure was equally remarkable.

However the improvement in the racial imbalance of the employment is only one side of the story. The NEP had another goal, the rectification of the imbalance of ownership and wealth among the races. The programmes to achieve this goal consequently reduced the employment-generating capacity of the NEP. Ideas to rectify the distribution of ownership and wealth had been consistently demanded by the Malay capitalists. In 1965, when the Malay capitalists publicly demanded an increase in Malay participation in terms of capital share, the government established a Kongres Ekonomi Bumiputra in order to establish a detailed plan to meet the demands of the Malay capitalists. The target share of 30 per cent Malay ownership was demanded by the Malay

<sup>9</sup> The poverty of Chinese and Indians was also reduced. The incidence of poverty for Chinese was reduced from 26% in 1970 to 5.5% in 1990 and Indians from 39% in 1970 to 8.0% in 1990. Rajah Rasiah (1997) «Class, Ethnicity and Economic Development in Malaysia», in Garry Rodan et al. (eds): *The Political Economy of South-East Asia. An Introduction*. Melbourne: Oxford University Press: 127.

capitalists (Shamsul 1991: 191). In the NEP this demand was translated into explicit programmes to support the activities of private Malay capitalists through public finance and the establishment of quasi-governmental bodies such as the Urban Development Authority (UDA) and the State Economic Development Corporation (SEDC) to promote the interests of the Malay capitalists. The corruption-ridden local political parties contributed to the increase of Malay capitalists' ownership of enterprises, but the fund for the development project which would have been used to create jobs was not used properly<sup>10</sup>.

Another major element of the NEP was a shift of the industrialisation plan from ISI to EOI. In fact this policy shift had already begun when the 1968 Investment Incentives Act was legislated to encourage the expansion of manufactured export goods. Following the proposal by the Raja Mohar Committee for diversification into new industries, the Act included a wide range of support for export-oriented industries from tax relief for export-oriented firms, investment tax credits, accelerated depreciation allowances, export incentives, tariff protection for new manufacturing establishments to exemption from import duties and surtaxes. The government agency, the Federal Industrial Development Authority (FIDA), established in 1965, actively engaged in developing such industries.

Under these circumstances the Labour Utilisation Relief Act was established in July 1971. It was to grant tax relief to companies based on the number of workers employed and by the abolition of the 2 per-cent payroll tax so as to encourage labour-intensive industries. A racial quota for Malays was applied to this. This policy achieved a certain degree of success in increasing Malay employment. During 1970–1980, 1,414,100 new jobs were created on the Malaysian Peninsular and these were reasonably well allocated according to the racial composition of the population with 51.9 % of jobs for Malays, 36.4 % for Chinese and 11.3 % for Indians. The increase of Malay employment in new or pioneer industries such as manufacturing and commerce industries was so remarkable that the share of Malay employment in the non-agricultural sector increased from 38% in 1970 to 43.7 % in 1980 (Mehmet 1982: 983).

However it was a limited success in two senses<sup>11</sup>. Despite the increase in Malay employment, the overall unemployment rate was not significantly improved and stood at 7 % in 1973. Secondly, most of the Malay employees in the commercial and industrial sector were in unskilled and semi-skilled jobs, which were vulnerable to economic change. Several factors may explain why Malays took the unskilled and semi-skilled jobs. Firstly, Malay youths' preferences of arts, language and Islamic studies to science and techniques in secondly and higher education would not help them to get skilled jobs.

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<sup>10</sup> As for the corruption benefiting politicians, bureaucrats and Malay, Chinese and Indian contractors at both local and national level, see Shamsul 1983.

<sup>11</sup> David Lim (1982–1983) also raised a question about the result. He argued that the Labour Utilisation Relief itself was not significant in increasing employment since it was biased towards the bigger enterprises which were only 6% of the total number of manufacturing establishments and mostly capital-intensive. David Lim (1982–1983) «Malaysian Development Planning», *Pacific Affairs*, 55 (4): 613–639.

Although the quota for admission for Malays played a significant role in increasing the degree of educational attainment of Malays, most Malays did not choose the science and technique related disciplines which were helpful in getting jobs as skilled workers and managers. Secondly, the provision of jobs in public service played a negative role in Malays' getting jobs in the commercial and industrial sectors. The quota for Malays, relatively easy promotion and Malay-oriented working environment in the public sector facilitated highly educated Malays to choose jobs in the public sector rather than the private sector (Mehden 1975: 257). The guarantee of job security of Malays in the public sector prevented any increase in Malay employment at skilled and managerial jobs in the private sector.

Despite the government efforts to improve the living standard of Malays through various programmes of the NEP, the economic imbalance between Malays and non-Malays was not significantly improved until the late 1970s. The poverty was particularly severe for rural Malays, except for a small minority group of rural Indians (Kusnic and DaVanzo 1982: 31). The poverty in urban areas was not addressed with appropriate policies, either. Although there was a project to build 13,244 housing units for the urban poor between 1970 and 1975, this was not enough to make a significant improvement in the standard of living of the urban poor.

## **Reform under the Mahatir Government: From the Government-led Pro-Malays To the Government-led All Malaysian Policy**

In the early 1980s Malaysia began to suffer from the international recession and the collapse of the commodity prices. The manufacturing industries showed a poor performance due mainly to a recession in the global semiconductor industry and partly to Malaysia's relatively weak competitiveness in technology. The performance of the manufacturing sector was particularly poor in 1985. Real manufacturing output in 1985 dropped by over 3 % and manufacturing exports were lower in 1985 than in 1984 (World Bank 1989: 17).

This recession was exacerbated by the capital flight. From the mid-1980s the outflow of capital increased and the Malaysian economy, relying heavily on foreign capital, entered a great crisis. Fierce competition between manufacturing firms, in particular knitting, semiconductor and telecommunication firms in FTZs, which had collectively contributed more than half of the employment generated in Malaysia's FTZs, led them to accelerate the capital-intensification (Rasiah 1996: 123–4). Unemployment increased and the level of real wages declined. In 1986, real GDP was at about the same level as that of 1984 and the unemployment rate reached 8.2 percent, with about 450,000 unemployed in 1986 (Ariff and Semudram 1987: 25).

Apart from the increase in the unemployment rate, this short-run recession brought about a significant change in the labour market affecting various dimensions of workers' security. There was an increase in casual or temporary labour and contract labour. Responding to the fluctuating market, companies replaced regular-full time workers with casual or temporary workers. Although casual or temporary employment patterns

already existed in the wood products industry, they became prevalent in all industries. By so doing, they could «by-pass (not evade)» regulations about regular workers imposed on employers and other institutional 'rigidities' such as collective agreements (Standing 1996: 65). Contract labour was spreading for the same reason. Although these contracted workers were in a less precarious position than casual or temporary workers in terms of income, they were in the same position in terms of employment security loss. The absence of clauses to protect the rights of such workers as temporary or part-time workers and the insufficient number of labour laws enforcing officers contributed to further spreading of this kind of employment pattern (Standing 1996: 66).

This change in employment patterns meant more than job loss to workers, since basic welfare benefits were tied to employment, that is, regular full-time employment. Under this circumstance, unemployment meant the loss of employment-related welfare benefits as well as income. Employers felt less pressure to adapt to technological change, since most production work was fragmented into contract labour. This also consequently resulted in the loss of skills which would be the basis of their trade security.

Facing the urgent need to recover the economy Dr Mahatir's government which replaced Hussein Onn as PM due to the latter's poor health in July 1981, responded to this with a new approach composed of both old and new policies. The policy to increase Malay ownership continued. Despite the recession Mahatir affirmed that the 30 % of wealth ownership by Bumiputera would remain unchanged. Policy emphasis on the increase in Malay employment was not changed either.

However the approach taken shows a significant difference from the predecessors in the field of employment policy and industrialisation strategy. Based on the policy called «Look East Policy» which emphasised the developmental models of Japan and South Korea (Machado 1987: 640–3), the Malaysian government set forth heavy industrialisation and urbanisation with an emphasis on the change of values and attitudes of the Malays. The government vigorously pursued such projects as the establishment of a hot briquetted iron and steel billet plant, cement plants, the national car project and small engine plants through the Heavy Industries Corporation of Malaysia (HICOM), the governmental commanding headquarter of the heavy industrialisation project. However these heavy industrialisation projects faced stiff international competition due to the excessive global production capacity and protective measures. Consequently the overcapacity of these projects had a negative effect on the Malaysian economy. It raised the production costs and consumer prices. Since investment in the heavy industrialisation project was mostly financed from external foreign borrowing, the burden of the external debt of the Federal government increased. The federal governments' external debt grew from 10 percent of the GDP in 1980 to 38 percent in 1986 (Ministry of Finance, Economic Report 1981, 1989).

Urbanisation strategy encouraged the migration of the rural Malays and their participation in the government work projects in urban areas (Mahatir 1970: 113–4). The government projects were not big enough to accommodate the migrant rural Malays, and the pulling effect of this urbanisation strategy consequently contributed to an increase in unemployment in urban areas.

The Look East Policy contained the intention of the government to withdraw from the provision of finance to education and vocational training to Bumiputera. In line with this, on-the-job training rather than the government job training provision was emphasised. Although the government established many educational courses in business, commerce, science and technical and related fields, it gradually relied on overseas funding, mainly from Japan. The government also made transfer of technology a condition of contract or joint ventures by foreign companies. One of the main changes in the vocational training field was the establishment of training programmes paid for by foreign companies doing business in Malaysia (Mochado 1987: 652–3). The intention to reduce the current account deficit was another reason for this regulation. Foreign funded exchange programmes, a precondition of contracts or joint ventures, no doubt contributed to the reduction of the current account deficit of Malaysia which had the largest number of government-funded students seeking degrees abroad.

Another major component of the Look East Policy was to privatise government-owned companies. Although the privatisation initiative under the market-oriented reform was implemented without encroaching on Bumiputera's economic interests, the benefits were not for the poor or the unemployed but for newly emerging Malays capitalists and politicians and bureaucrats who received kick-backs from those who benefited from the privatisation initiatives.

In sum, as Mahatir confessed in an interview with the *Far Eastern Economic Review*, the unstated implication of this Look East Policy was that the Malays' economic weakness could not be overcome by government aid, but by their own help. The government would only give them whatever necessary help it could afford. This was a change from the government-led to government-induced employment increase of Malays (Interview with FEER, October 30, 1981, 33, Machado 1987: 645). The government began to transfer its responsibility for employment and job training for Malays to the market during this period.

The Look East Policy, lacking an explicit affirmative action for Malays, did not achieve its proposed goal in terms of economic growth and Malay employment until 1987<sup>12</sup>, which resulted in a serious political challenge to Dr Mahatir. Accusing the leadership of blatant abuse of power, an authoritarian leadership style, economic mismanagement and patronage and corruption, the opposition factions whose main figures are Tengku Razaleigh Hamzah and Datuk Musa Hitam challenged the leadership of Dr Mahatir in the UMNO election for the top party posts in April 1987.

The internal dispute of the UNMO opened a window of opportunity to enhance the position in the coalition to other component parties, especially the MCA (Malaysian Chinese Association). By pledging loyalty and support to the Mahatir government, the MCA forced Mahatir to move further away from the previous explicit Malay affirmative policy. Managing to maintain the party leadership by a narrow margin, Mahatir

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<sup>12</sup> Despite a modest growth of 2.5 % and an increase in exports of 6%, the economy was not in good shape in 1987. High national debt, domestic demand and investment were down, and unemployment, particularly among Malays, was up to 9.5 %. Diane K. Mauzy, Malaysia in 1987. Decline of «The Malay Way» *Asian Survey*, Vol. 28, Issue 2. A Survey of Asia in 1987: Part II, 213–222. p.220

responded to this political challenge by employing more blatant authoritarian-style suppression against his political opposition within the UNMO and reinforcing the coalition with other ethnic parties.

From 1988 the Malaysian economy gradually recovered from the recession. The annual GDP growth reached 9.8% and unemployment was relatively low, at 6% in 1990. The twenty-year-old NEP came to an end in 1991 and its successor, the ten-year New Development Policy (NDP) was launched. This was, in a sense, a turning point in economic management, since it downplayed the question of racial quota in employment. It meant that the government would not play a direct role in improving the living standard of Malays.

The privatisation initiative continued, as Proton (the state-owned automobile company) was partly privatised and the government's sponsorship of the Malays' privileges was gradually reduced (Case 1993b: 191).

The recovering economy resulted in a shortage of workers. The unemployment rate stood at about 3 % during the first half of the 1990s and the shortage of labour force in low-waged and unskilled jobs, such as labourers in the construction industry, was met by the influx of migrant workers from neighbouring countries such as Indonesia. The number of foreign workers increased from 0.5 million workers in 1984 to over 1.2 million in 1991 and 2.4 million in 1998. The construction industry sector, which had a lower wage level and worse working conditions than those of other sectors, heavily relied on foreign workers. According to Pillai (1992) 70% of the construction workforce were migrant workers in 1991 (Pillai 1992, Abdul-Aziz 2001: 3-4). The government policy to legalise the status of illegal migrant workers encouraged the migration of workers, and the number of migrant workers was close to one million, almost 1.4 % of the total employment of 7.4 million in 1993. The shortage of skilled workers still remained the main problem.

Since 1994, increased confidence in the continuous economic growth has led the government to resume massive public investment on education and training by allocating 20.6% of the 1995 budget, the largest share ever, for education and training in 1994 (Jawhar bin Hassan 1995: 187). It has also launched several massive public projects including building low- and medium low-cost housing programmes called the Rumah Rakyat (people's homes) and a new federal administrative centre (Putrajaya project). The expansionary budget and massive scale public works project had a positive effect on the employment rate, which remained less than 3 %; almost full employment. The only concern was a serious deficit in the current account, the highest in Asia, at an estimated 9% of the GNP (Jawhar bin Hassan 1996: 124). It was almost a return to government-led employment policies but with less of a pro-Malay element.

During this period the Mahatir government gradually replaced the government-led pro-Malay employment policy with a government-led all Malaysian employment policy. Unemployment problems were addressed with a past strategy of generating jobs through industrialisation, particularly through the invitation of foreign direct investment. Although there was a significant improvement in the Malays' employment in the modern sector, Malays still lagged behind others in terms of standard of living.

The policy of pursuing job security through government investment was not supplemented by other welfare policies such as a universal old-aged pension system or

unemployment benefit system. Although public health care provision based on a universal welfare model provided health care services to people of both urban and rural areas, the government consistently manifested its intention to privatise the health care system in such forms as savings, private insurance and employer-funded private coverage (Barraclough 1998: 57–58).

## **Financial Crisis and the Policy Response to Unemployment**

Until 1997, when the Asian Financial crisis began, the Malaysian economy was on a sound footing with nearly full employment, price stability and high growth, the average rate being 8.7% during 1990–1997 (World Bank 2001, table 11, 210). Although the impact of the crisis on Malaysia was less severe than on Thailand, Indonesia and South Korea, the abrupt Asian financial crisis, and in particular the short-term capital outflow, certainly had damaging economic consequences on Malaysia. The stock price fell by 68.6% and the dollar-ringgit exchange rate plunged by over 37% during the worst patch of about a year (Hasan 2000–2001: 39). The real GDP experienced negative growth of –6.7 % in 1998 compared to 7.7% positive growth in 1997 (Malaysia 1999).

Unemployment increased from 2.4 % to 3.2 % in 1998, which implies that the impact of the Financial Crisis on the employment was less severe than that of the recession of the mid-1980s, resulting in an unemployment rate of almost 8%. One Malaysia-specific factor may explain this low unemployment just after the Financial Crisis. The rural areas were not severely affected by the financial crisis. In fact some areas such as Sarawak and Sabah producing primary commodities such as palm oil priced in US dollars, benefited from the financial crisis (Embong 2000: 137). These rural areas played a buffer role in absorbing the returned workers from the urban area<sup>13</sup>.

Although the figure was not especially high, however, it may be wrong to take the unemployment rate at face value because it does not reflect dropouts or discouraged worker from the labour force (ADB 2000: 18). This is the case for Malaysia, which is a country with an agricultural sector large enough to absorb these discouraged workers.

The unemployment in the construction sector, of which the government's public works project accounted for the majority, was particularly severe, together with the manufacturing sector. The Malaysian government policy response to the unemployment was composed of two contradicting policies. The government tightened the monetary and fiscal policy and postponed large scale infrastructure projects totalling more than RM 60 billion; the Bakun hydro-electric dam, the Northern Region International Airport, the Highland Highway and the Kuala Lumpur Linear City were all postponed under government austerity measures. Civil servants' pay was cut as the public expenditure was curtailed. This led to the reduction of some allowances to employees

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<sup>13</sup> The increase in number of the employed in occupational group 6 (agriculture, animal husbandry and forestry workers, fishermen and hunters) from 1,516, 4000 in 1997 to 1,632,600 partly confirms this argument. See table 4.

since the civil service pay was considered as an implicit income guideline. All these measures had a negative effect on the labour market so a countermeasure to the increasing unemployment was desperately needed.

Another sector the government tackled to reduce the possible increase in unemployment was the migrant workers from neighbouring countries such as Indonesia. Before the financial crisis when Malaysia maintained near full employment, Malaysians moved into better-paying jobs while 2 million foreign workers, both documented and undocumented, filled low-end and unskilled jobs (so called 3D (dirty, difficult and dangerous) jobs) (Battistella and Asis 1998: 108–9). In 1998 the Malaysian government decided to repatriate about 900,000 documented migrant workers, mostly Indonesian. There were some 200,000 workers who were likely to be laid off in late 1998, mostly in construction, and some 700,000 whose work permits would expire in August 1998 (Battistella and Asis 1998: 109). Given the portion of the total labour force of foreign migrant workers, the repatriation of these must have significantly contributed to reducing unemployment policy<sup>14</sup>. The effect of this repatriation policy was partly confirmed by the size of the reduction in employment of Group 7 in table 4, the production and related workers, transport equipment operators and labourers. The fact that the amount of laid-off workers totalled only about 150,000 jobs in these groups shows that the repatriation of 900,000 migrant workers mostly working in these occupations certainly contributed to reducing the damaging effect of the financial crisis on the labour market.

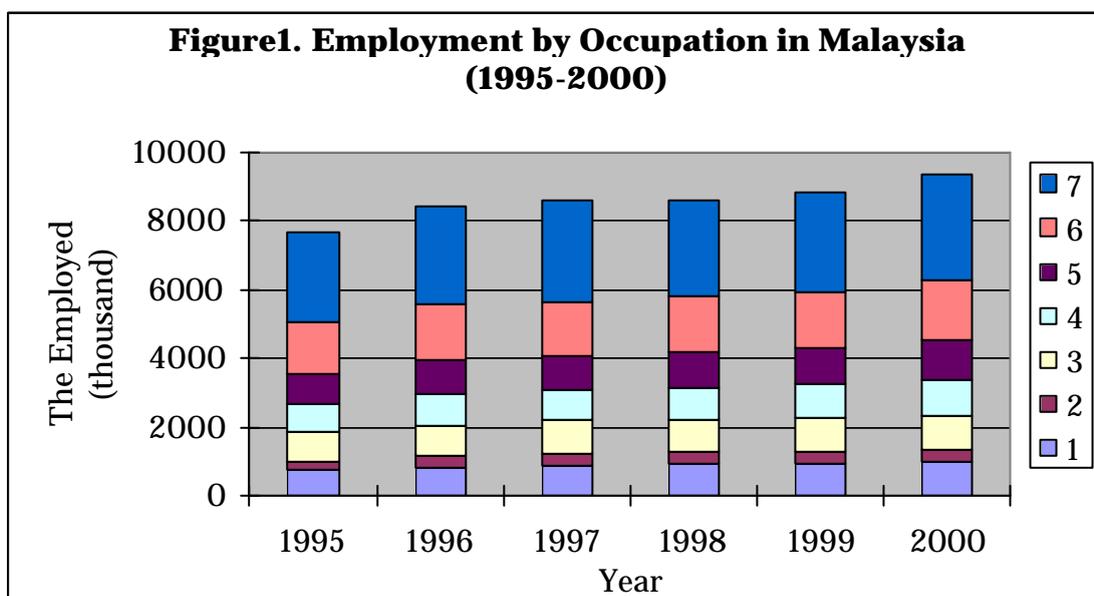
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<sup>14</sup> Although there is no available research on the effect of migrant workers on the reduction of unemployment, it is commonly pointed out that the repatriation of foreign workers contributed to the maintenance of low unemployment. See Embong, 2000, 137. Abdul Rahman Embong (2000) «The Political Dimension of the Economic Crisis in Malaysia», in Abdul Rahman Embong and Jürgen Rudolph (eds): *Southeast Asia into the 21<sup>st</sup> Century: Crisis and Beyond*. Pattani: Penerbit Universiti Kebangsaan Malaysia.

**Table 4.** *Employment by Occupation in Malaysia (1995–2000)*

Occupational group	1995	1996	1997	1998	1999	2000
1	756.6	838	896.6	913.1	937	985.1
2	247.7	298.2	329.5	346.2	348.3	371.3
3	832	905.8	963.2	946.9	985.6	990
4	834.9	935.7	918.5	937.5	991.7	1050.8
5	845.8	943.1	985.1	1007.9	1052.8	1149.9
6	1539.5	1644.8	1516.4	1632.6	1633.1	1713.3
7	2588.4	2833.6	2960	2815.4	2889.3	3061.3
Total	7644.9	8399.2	8569.3	8599.6	8837.8	9321.7

Note ISCO1968. (1 (Major group 0/1): Professional, technical and related workers, 2 (Major group 2): Administrative and managerial workers, 3 (Major group 3): Clerical and related workers, 4 (Major group 4): Sales workers, 5 (Major group 5): Service workers, 6 (Major group 6) : Agriculture, animal husbandry and forestry workers, fishermen and hunters, 7 (Major group 7/8/9) : Production and related workers, transport equipment operators and labourers.



The Mahatir government's policy response to unemployment was not fundamentally changed from the previous years. The Policy focus on job security was maintained at the expense of the migrant workers. The government pursued the policy focusing on Malaysian job security by getting rid of the job security of migrant workers. The Malaysian economy quickly bounced back from the financial crisis in the region with a surging growth of 8.3 % in 2000 and the Malaysian job security oriented policy reduced the pressure of unemployment. Through exploitation of the ethnically divided labour

market at the expense of the migrant workers' job security, the Malaysian government was able to manage the unemployment problems caused by the financial crisis.

The future of the unemployed in Malaysia, however, does not look promising. The government's effort to secure job security through general macro-economic management is in conflict with the relaxation of employment rules and regulations which consequently makes the labour market more flexible. The increase in casual and temporary workers leads to their exposure to a higher risk of job loss. Despite the increase of jobs in construction under the government's recently resumed large scale works projects, the increasing migrant workers will reduce job opportunities for Malaysians and contribute to the lowering of real wages. The competition with migrant workers will result in a significant degree of income loss without government policy efforts to set the minimum wage.

Since 2000 the government has begun to shift its focus to information technology and has established various government funded vocational training schemes, such as the Revolving Fund for Skill Development in which high school graduates can study information technology, at an estimated cost of 500 million ringgit (131.58 million dollars) (Xinhua News Agency, 5<sup>th</sup> of October, 2000). The intention was also reflected in the K-Economy Plan in September 2002. According to the plan the Malaysian government is to shift its economy from production-based (the so called P-Economy) to knowledge-based (the so called K-Economy), an economy dependent on brain rather than brawn, driven by mental rather than manual labour, more propelled by knowledge than by physical production (Sopiee 2002). Despite the government's pledge not to dismantle or neglect the «old» industry, this high-skill and information-technology oriented job training is not readily available to those marginalized workers who are mostly low-skilled and uneducated Malays. Specific policy measures are urgently needed to guarantee their job and income security.

The recent welfare reform trend is another factor to make the future of the unemployed seem bleak. As the government began to concentrate on non-inflationary financial resources for economic growth as well as social protection, (YB Datuk Dr Fong Chan Onn 2000), the contribution rate of both employers and employees to the provident fund has increased to 12 % and 11% of employees' monthly wage respectively. The government's intention to privatise public health care by making the employees reliant on the provident fund is more likely to increase the contribution rate of the provident fund, which will lead to income loss in the short term and increased unemployment in the long term. Without comprehensive policies to guarantee both income and job security, next time Malaysia may not have the luck which they had in the Asian financial crisis.

# South Korea

## Korean War and Welfare Experiment

Korea suffered Japanese colonialism for 36 years from 1910 to 1945 when Japanese surrendered to Western Allies. Korea, a predominantly agrarian economy based on paddy rice growing until the late 19<sup>th</sup> century, began to make a socio-economic development during the colonial period. Having relatively scarce natural resources endowed the economic structure did not go through fundamental change during the early phase of the colonial rule. It was the 1930s when Japan began to embark on its military expansion on China that the massive scale of industrialisation began in Korea. Since Japan decided to use Korean peninsula as a munitions factory for the northern front in China, the basic infrastructure such as railway expanded and both light and heavy industries began to develop.

The end of the Second World War brought in another war to Korea, this time between the North and South, divided along the line of two polar powers of the world, the communist block and the west. Three years of Korean War (1950–1953) had a tremendous impact on the political and socio-economic conditions of South Korea. Much of the progress made towards reconstruction between 1947 and 1949 was undone.

The damage to the industrial sector was particularly severe during the war. In 1953, it was estimated that the net commodity product per capita in real terms was about 27 per cent less than that in 1946 (Kim & Romer 1979: 29, 35). After the Korean War enterprises suffered from a lack of capital for investment and there were few independent, private sources of help except foreign aid from the United Nations and the United States. Despite the difficulties of the industrial sector, thanks to the agricultural sector and foreign aid, the annual per capita product rose steadily throughout the 1950s.

The effect of the growth of agricultural production was, however, mitigated by the increase in population. Population growth reached an average annual rate of nearly 2.9 per cent during the second half of the 1950s. The influx of 1.8 million North Koreans during the Korean War contributed to the growing population and brought increased unemployment and a shortage of consumer goods and housing (Office of Labour Affairs 1973: 196).

The first elected government could make a progress in terms of economic development with the foreign aid mostly from the US. In April 1960, students and intellectuals rose up against the Rhee government, and their nation-wide demonstration brought about the downfall of the regime (Han 1974, Cumings 1997: 339–47).

**Table 5.** *The Frequency of Change in Cabinet Ministers*

	The Rhee Government (1948–1960)		The Chang Government (1960–1961)		Military Junta (1961–1963)	
	Duration (Months)	Incumbents (Persons)	Duration (Months)	Incumbents (Persons)	Duration (Months)	Incumbents (Persons)
Prime Minister	17	6	9	1	7	3
Foreign Affairs	50	2	9	1	10	2
Home Affairs	7	15	2	5	10	2
Finance	17	6	9	1	5	4
Justice	14	7	5	2	10	2
Education	25	4	5	2	7	3
Defence	20	5	5	2	10	2
Agriculture	8	12	9	1	19	1
Commerce and Industry	11	9	5	2	10	2
Transportation	17	6	5	2	19	1
Communication	20	5	3	3	19	1
Public Health	50	2	n.a.		n.a.	
Social Affairs*	30	3	3	3	10	2
Reconstruction	25	4	3	3	19	1
Construction	0	0	0	0	7	3
Mean	22	-	6	-	12	-

\* The Ministries of Public Health and Social Affairs were consolidated under the Chang Government.  
*Source:* Kim, C. I. E (1964) «Japan's Colonial Education and Korea's Nation Building», in C. I. E Kim (ed.): *A Pattern of Political Development. Korea*. Seoul: The Korea Research and Publication: II-37.

Chang Myon, newly elected Prime Minister took over power. The Chang government set «economic growth first (Kyongje Cheilchui)» as the goal they would pursue throughout their term (Lee 1999: 18, 34–45). The government designed the Five-Year Economic Development Plan and asked the U.S. for financial support.

Apart from the launch of the economic development programmes the unemployment and the expected spring shortage of foods, however, were the urgent issues for the government to address (Oh 1968: 83). In response to the unemployment and poverty the Chang government launched a first initiative of the massive scale public works projects. The policy choice for the public works projects for the unemployment policy is closely related to the Chang government's instability.

The Chang government was unstable due to both internal factional strife and footloose people's demands for rapid policy response to counteract the poverty. Although the unified Democratic Party took over power after the collapse of the Rhee regime, the unity of the party was not based on a positive belief in democratic programmes but on opposition to the Rhee regime (Henderson 1968: 304). Their marriage of convenience began to disintegrate and the Chang government suffered from consistent factional strife. The opposition faction within the party had always offered a different opinion on almost any government policy. The government had to constantly reshuffle its cabinet in order to satisfy its own opposition. Despite all efforts, the opposition group became increasingly hostile towards the government and finally the ruling Democratic Party was split up (Han 1974: 58–65, Lee 1968: 136–43).

This factional strife hampered the government capacity to make and implement policies. It was much more visible in the ministries which had direct responsibility for labour and welfare issues (Yi 2002: 98–101). Table 5 shows the unstable nature of the Chang government in terms of governmental organisation. The organisational instability is reflected in the frequent changes in cabinet posts, and the duration of the ministers of the Ministry of Health and Social Affairs and the Ministry of Reconstruction is the shortest compared with others. The instability of the ministries which took in charge of policies to address the unemployment problems prevented the establishment of a systematic programmes responding to the unemployment. In addition, urgent political needs of the government to stabilise the people full of discontents and being impatient prevented the government from contemplating and designing a long-term economic development plan. Facing the increase of the unemployed people<sup>15</sup> and the expected spring shortage of food the government established the public works projects to counteract the unemployment (Oh 1968: 83).

The National Construction Plan was announced on 28 November 1960 and launched on 1 March 1961. On 2 February 1961 the United States announced an increase in aid in the form of surplus agricultural products which would go directly to Koreans employed on these projects as wages in kind (Reeve 1963: 146). The government appropriated a total of 43,001 million Korean Hwan which was 6.56 per cent of its budget (the Editorial Committee of the 40 Years' History of Korean Public Finance 1990: 395–400, 420).

The government drew up the National Construction Plan which aimed to achieve two goals. Firstly, to provide an infrastructure for industrialisation by building power plants, roads and dams and, secondly, to provide jobs for the unemployed. The main targets were the university graduates who had been the most politically activated.

The Political aim of the National Construction Plan seemed to achieve a certain degree of success thanks to support from within and outside the nation. When large-scale recruitment of university graduates for these projects was announced, there were over ten thousand university student applicants.

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<sup>15</sup> Unemployment in 1960s was estimated at one-fifth of the total labour force or some two million people, and it was well beyond the capacity of the industrial sector to provide jobs.

It was no more than a hassle-free way to circumvent a complicated negotiation process with the opposition parties for resource allocation and policy design since it was to be mainly funded by the ear-marked US aids. It was also expected to enable the government to claim the «political credit» and contribute to calming down the social disorder since it would provide jobs to university graduates who had been considered as one of the most politically mobilised social forces. The limitation of both the governmental administrative capacity and financial resources led the government to choose public works projects mainly aiming at the university students, funded by the US aid as a programme to address the unemployment. In fact this programme contributed to reducing demonstrations in universities and stabilising social disorder (Lee 1999: 23–4). However the public works projects were suddenly disrupted by the coup in 1961 by General Park in 1961.

## **Economic Development and the Establishment of Workers' Welfare State**

While the Chang government began to implement its policies to address economic and social problems, the streets were filled with all sorts of demonstrations and protests. The government's economic policy had not yet brought about any visible achievements. All this caused even the supporters of the Chang government to think that the society was on the brink of collapse, and that they needed a stronger authority than the present Chang government to address social insecurity (Chang 1961: 34).

It was General Chung Hee Park and a dozen or so colonels who responded to this social atmosphere with the military *coup d'état* of 16 May 1961. By 17 May, a military junta had gained operational control of the ROK army, forcefully dissolved the National Assembly, banned all political activity, and begun to control bureaucrats through the newly appointed heads of ministries who were all military officers.

Due to the urgent political needs to justify their unconstitutional take-over of the power, the military junta also put the priority on the policy to address the wide-spread poverty and the increasing unemployed people in the urban areas<sup>16</sup>. On 18 July 1961, just two months after the coup, the Supreme Council for National Reconstruction announced the Emergent Economic Policy which promulgated that the government would continue the public works project to reduce unemployment, followed by the establishment of the Livelihood Protection Programme (LPP) to alleviate the poverty in December 1961.

Although the political urgency played a significant role in establishing those programmes the policy response of the military junta (the Park government since 1963)

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<sup>16</sup> Increasing unemployment was particularly serious in urban areas, which had resulted in severe poverty. In August 1962, of the 9.8 million economically active population, 0.7 million were unemployed (the Editorial Committee of the History of Korean Military Revolution 1963b: 510–1). Since the survey included people working more than 12 hours per week (20 days per three months) in the category of the employed, the number of the unemployed was underestimated. The unemployment rate in urban areas was four times bigger than that of rural areas in 1963 (the Economic Planning Board 1971: 48).

to the unemployment and poverty was much more systematic than the previous government for several reasons. Firstly the idea of the top-decision maker, Coup leader Park who became the President in 1963 shaped the nature of the programme. Park emphasised the self-reliance and the work ethic as a way to escape the poverty. He was at the heart of the all the decision making processes and his ideas brought about a new social policy paradigm specifying how social problems should be identified and which goals should be attained through policy (Yi 2002: 105–107). Secondly, as the members of the military junta took charge of all the governmental institutions the institutional cohesiveness was drastically enhanced. Maintaining the administrative staffs and hierarchy of the previous government contributed to strengthening the administrative cohesiveness. Thirdly the administrative efficiency in the dimension of decision-making was drastically improved by the establishment of the hierarchical administrative structure where the economic-growth-goal-oriented policy makers, mostly those in the Economic Planning Board, the Ministry of Commerce and Industry, and the Ministry of Treasury had the final decision-making power over other ministries whose policies were purpose-centred rather than the economic growth centred (Chung 1989). These economic bureaucrats «formulated a broad industrial policy, identify means to implement it and ensure competition in strategic sectors» (Woo-Cummings 1999: 14). They were able to coordinate competing policies generated from a long-term economic development plan and a short-term social and political demands generated by international and domestic factors. This developmental administrative structure continued during both periods of the Park and Chun governments at least and the economic planning bureaucracies such as the Economic Planning Board which put the priority on the economic growth in a consistent manner maintained the power to control over a wide range of policy issues during the period. Fourthly, as the state governments successfully established and strengthened credit-based systems of industrialisation through financial control over bank loans, interest rates and etc., the ‘developmental coalition’ where the government played a role of planner and the firms a role of implementer was established. Based on this coalition the government could exert an influence on the role of firms in redistribution areas as well as distribution areas (Yi 2002).

With the enhanced institutional cohesiveness and administrative capacity the military junta established the public assistance programme, called the Livelihood Protection Programme (LPP) in December 1961 to respond to the wide-spread poverty. Although established to respond to wide-spread poverty and discontent from the poor by alleviating the extreme poverty Park’s concern for the lack of government resources and the emphasis on the work principle led the government to establish a strict eligibility criteria by which the poor with working capacity were excluded from the benefit coverage. The first criteria which the military junta established included only those below 18 and over 65 years of ages, pregnant women and disabled men who had no relatives or families. The eligibility criteria did not have an explicit official poverty line or income and asset criteria for the recipients. The income and asset criteria for the recipients were to be decided by the Minister of the Public Health and Social Affairs. Under the circumstance the eligibility criteria established by the Ministry of Public Health and Social Welfare, which was believed to expand the coverage of the

programme was frequently rejected and lowered than the suggested level by the Economic Planning Board (Chon 1992: 77). Together with the imposition of the family responsibility and the emphasis on the work principle by the government the Economic Planning Board which played a veto point in the expansion of the LPP coverage facilitated the the exclusion of the able-bodied poor from the benefits recipients.

The unemployed who were left outside of this programme were suffering from a lack of basic food and clothing. In order to respond to these problems the military junta expanded the coverage of the LPP to the able-bodied poor categorised as «People living in poverty (Yongsemin)» in 1962. However work principle was again emphasised and the junta assigned them to public works projects under the re-launched National Construction Projects.

Since 1964 the government have developed a wide range of works projects and the main focus was placed upon the irrigation works and land reclamation in order to provide the poor with the agricultural lands. For instance in 1966 82.8% of the participants in the public works projects were working for the irrigation works and land reclamation (the Government of Korea 1967: 465). The unemployed poor with working capacity in urban areas were largely excluded from the programme.

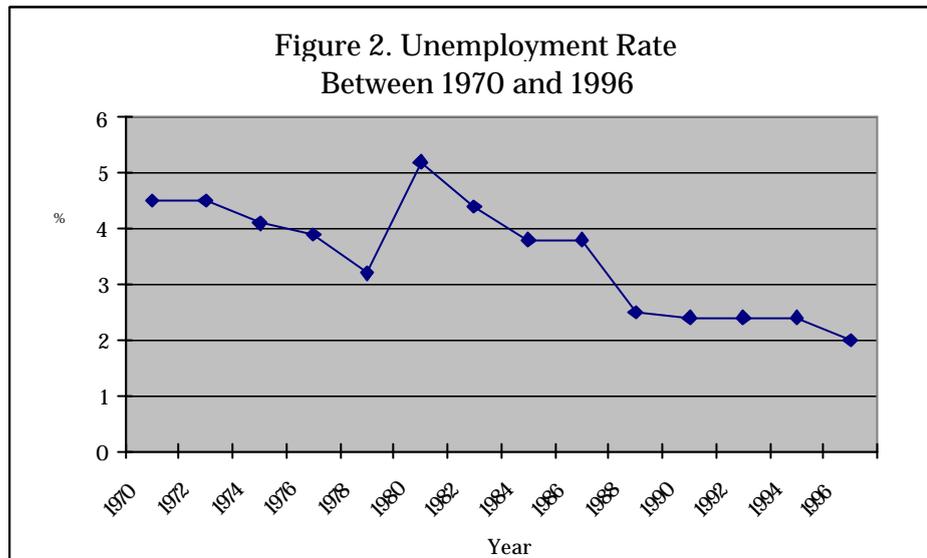
The government established the recipient criteria in a very much arbitrary manner in which the ultimate decision was at the Economic Planning Board and a very small segment of people could receive benefits. Through this process the characteristics of LPP, the exclusion of the poor with working capacity and the emphasis on the work principle, were in large preserved during the period of the 1960s to the 1970s when Korea achieved a rapid economic growth and maintained low unemployment rate (see Table 6 and Figure 2).

In the early 1980s when Korean economy fell into recession the Chun government which took over the power through the coups in 1980 launched several initiatives for welfare programmes, which was used as a tool to strengthen their legitimacy. The revision of the LPP of 1982 was a part of this government's initiatives to expand the welfare system. The revision brought about changes in two dimensions. Firstly, the government included the programme for education of the offspring of the recipients in the LPP. Although it certainly have contributed to increasing disposable income of the recipients, the benefits given in the form of exemption of the tuition fees focused on the employability development of the young dependents rather than the increase of the disposable income.

The emphasis of the work principle and the relative neglect of the income security of the poor with working capacity were reflected in the reduction of the expenditure of the LPP. Table 7 shows that as the unemployment rate gradually decreased from 1982 the expenditure on the LPP was also significantly reduced compared to other welfare programmes. The reduction of relative share of the programme compared to other programmes was accentuated when the responsibility for the LPP implementation was transferred to the local government in 1992. Tight budget of the local government obstructed the development of the programme as a public assistance programme for the unemployed.

**Table 6.** *Unemployment Rate Between 1970 and 1996*

	1970	1972	1974	1976	1978	1980	1982	1984	1986	1988	1990	1992	1994	1996
Unemployment Rate	4.5	4.5	4.1	3.9	3.2	5.2	4.4	3.8	3.8	2.5	2.4	2.4	2.4	2



**Table 7.** *The Government Expenditures on Welfare Programmes in Korea*

	1970		1980		1985		1990		1991	
Social Insurance	14.4	45.3	403.3	53.8	1,280.4	68.3	4,040.7	74.0	4,969.3	74.3
The LPP	4.7	14.8	119.7	15.9	174.0	9.3	341.2	6.3	278.1	4.2
Medicaid	-	-	14.2	1.9	65.9	3.5	151.4	2.8	173.0	2.6
Public Health	3.2	10.1	71.1	9.5	102.5	5.5	216.7	4.0	330.8	4.9
Public Housing	2.5	7.8	71.1	9.5	44.3	2.4	226.5	4.1	264.1	4.0
Veterans Relief	6.5	20.4	61.8	8.2	158.3	8.4	366.7	6.7	527.4	7.9
Others	0.5	1.6	9.1	1.2	49.4	2.6	114.8	2.1	142.1	2.1
Total	31.8	100	750.3	100	1,874.8	100	5,458.0	100	6,684.8	100
Total as Percentage of GNP	1.15		2.04		2.40		3.18		3.24	

*Source:* Korea Development Institute, National Budget and Policy Goals, various issues. Ministry of Home Affairs, Financial Yearbook of Local Government, various issues. Ministry of Finance, Summary of Financial Implementation for Fiscal Year various issues. Quoted from Kwon 1993.

In sum the combination of the government's emphasis on the work principle with the absence of explicit criteria for the poor resulted in the exclusion of the poor but able-bodied unemployed people from the programme. The LPP launched as a public assistance programme to provide benefits to both the poor and the unemployed was gradually transformed into the public assistance to the poor incapable of working. According to the government's survey, 80% of the recipients of the LPP were the disabled, the elderly or children who were incapable of working (the Ministry of Government Administration 1997: 111). Since the LPP excluded the able-bodied unemployed from the coverage, the living standard of those working poor was entirely dependent upon the market's capacity to generate jobs. In this sense the LPP was a very much job-security oriented programme.

In contrast with the LPP the governments' policy efforts for skill development was remarkable during the period of the Park government.

While suppressing the trade union activities and labour movement, the governments established a wide range of policies to increase and facilitate the welfare and skills development of workers<sup>17</sup>.

The economic development plans first launched in 1962 and renewed every five years played a fundamental role in shaping the nature of vocational training. At the initial stage, mindful of the country's limited natural resources and small domestic market, the Park government adopted an outward-looking development strategy that emphasised export expansion. In the 1960s, the essence of this strategy was the promotion of export-oriented industrialisation, mainly labour-intensive light industries such as textiles, plywood and shoes. There were certain requisites for the success of these industries; a cheap but well-trained labour force and financial resources to be invested in this industry. Therefore, social welfare programmes should also conform to this industrialisation strategy and this strategy in most cases delayed the development of welfare programmes except for in two fields; vocational training and occupational welfare for workers.

In order to create a cheap but well-trained labour force, the government invested in the training of technicians and skilled workers who would ensure the success of the First Five-Year Economic Development Plan. In 1964 an unprecedented subsidy of 131,470,000 won was granted for the purchase of laboratory and testing equipment and the expansion of on-the-job training facilities in engineering, agriculture, fisheries and other «trade» schools. Vocational training institutes were established at 13 companies with suitable facilities for on-the-job training and experiments. In March 1964: 749 certified technicians graduated, with 37 classes and 956 trainees enrolled. The investment in vocational education was accelerated in 1965 after President Park visited West Germany. He was very impressed by vocational education there, and in particular by the fact that most German companies had their own schools for vocational education. In a speech following his visit to West Germany, he expressed his strong wish to establish similar institutes of vocational education (Shin 1970: 23–4) and in 1965 the government appropriated an additional 342,310,000 won for vocational education in high schools.

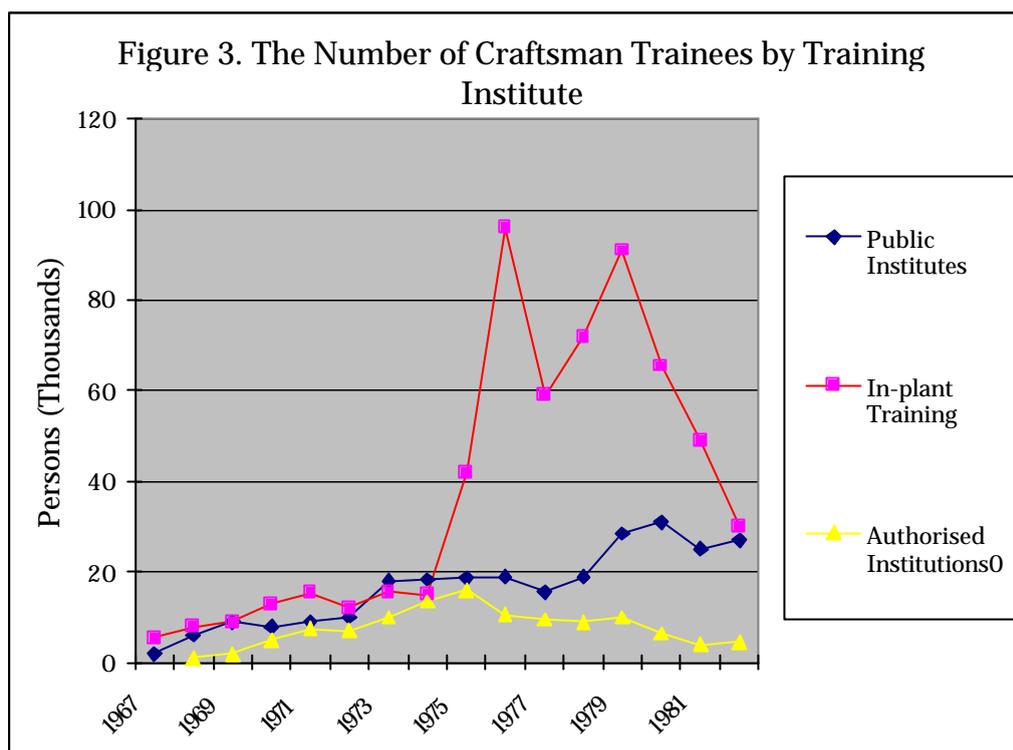
In 1967 the government legislated the Vocational Training Act and began to launch public vocational training courses to provide skilled workers and technicians to industries. Together with the emphasis on general education to reduce illiteracy and innumeracy through formal education, the government intended to enhance the skills of operatives and craftsmen through the establishment of public vocational training institutions such as the Central Vocational Training Centre established in 1968. In this initial period the government assumed both financial and managerial responsibility for vocational training. Given the government's strong role of regulator rather than

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<sup>17</sup> Social insurance programmes such as the Industrial Accident Insurance Programmes, the National Health Insurance Programmes and the National Pension Programmes were established and expanded their coverage to more workers gradually in a piecemeal fashion. Because of managerial reasons and financial feasibility the government targeted the workers employed at a certain size of establishments.

provider in other social welfare programmes during this period, the government's assuming both regulator's and provider's roles in the vocational training field was noticeable. The private industries did not have an interest in investing in skills developments and the government even subsidised the in-house training of private companies (Bai and Cho 1994: 49–50).

As the Korean economy entered the «deepening stage» of industrialisation where the heavy and chemical industries began to emerge after 1972 the demand for skilled manpower from the industry drastically increased, but the public vocational training institutions could not meet these demands (Bai and Cho: 50–52). The government transferred the responsibility for the supply of skilled workers by establishing the Special Measure Act for Vocational Training of 1974 and the Basic Law for Vocational Training of 1976. It is worth paying attention to the year of 1974 when the Special Measure Act for Vocational Training was legislated. In 1974 the government postponed all the programmes which would place financial burdens on the firms to overcome the difficulties caused by the oil crisis which hit Korea hard in October 1973. While the government tried to reduce all the other welfare programmes which would put financial burden on firms (Yi 2002: 161), it established a special measure to oblige firms to do vocational training for their employees. It shows that the economic ministries perceived vocational training as a solution to overcome economic difficulties in the short-run and to achieve long-term economic development. This shows that the economic-growth goal-driven policy makers facilitated the reinforcement of the employment dimension of the security even under the economic crisis by establishing compulsory vocational training schemes for firms. Both laws enforced the in-plant training of a certain percentage of employees on private companies. Under the Basic Law for Vocational Training of 1976 the firms had two options: in-plant training and contributions to public vocational training schemes. Since the students enrolled in the public vocational training institutions were mostly young first-time job seekers such as middle school graduates, high school drop-outs or high school graduates, the Law enforced the firms to contribute to either human capital investment for their own employees or human capital investment for job seekers, which enhanced their chance to get a job. Therefore the Law itself had a focus on two dimensions of security, that is, employment security through the increase in the human capital of workers and job security through the skills development of the first-time job seekers. For firms, retraining and upgrading the skills of their own employees was much safer and more economical than contributing to the public vocational training over which firms had no control. Until 1982 when the heavy and chemical industries were suffering from over capacity due to the international recession, the number of craftsman trainees by in-plant training schemes was much higher than those by public institutions and authorised (both quasi-public and private) institutions (See Figure 2).



Source: Economic Planning Board, Mining and Manufacturing Census, various issues, quoted from Bai and Cho, 1994.

After a brief period of decline in the number of trainees of in-plant vocational training, this re-increased from the late 1980s when the Korean economy regained its strength. The government's enforcement of the compulsory in-plant vocational training on the private companies became strengthened and enlarged as the coverage of the Law expanded. In 1992 the Law expanded its coverage to firms with more than 150 employees. The government's policy for vocational training focused on both the job and employment dimensions of the unemployed and workers' security. As the government began to shift its focus from vocational training for first time job seekers to retraining of workers employed at private firms by establishing a series of laws forcing private companies to establish compulsory in-plant vocational training, it became a policy to facilitate the human capital of workers, which in consequence strengthened the employment dimension of the security.

### **Structural Adjustment and the Relaxation of the In-Plant Vocational Training Obligation.**

The *Yushin* regime ended suddenly when President Park was assassinated by the chief of his security guards. The Fifth Republic (1980–1988) headed by Chun, the-ex General dominating the unstable political scene of the early 1980s by using his military force was launched. It set out two national goals: Stabilising the economy and building a welfare state. Setting out «the Construction of a Welfare State» as a national goal was perceived

as a particularly noticeable breakaway from the previous government, which had emphasised an expansionary economic policy to promote exports and «economic growth first and distribution later». The previous government considered the welfare state a distant goal and encouraged people to improve their welfare through hard work rather than rely on government redistribution.

President Chun pledged that he would address the inequalities which had arisen during the late 1970s by paying greater attention to issues of social development. The term «welfare state» gained common currency. Several welfare initiatives made the new government appear committed to building a welfare state. Government expenditure on social security and welfare appeared to increase.

Economic problems had been hotly debated in the previous government from late 1978, when there was a visible sign of an overheated economy and high inflation due to the government's expansionary economic policy to develop the heavy and chemical industries. The consumer price index jumped from 10.1 per cent in 1977 to 14.4 per cent in 1978 and 18.3 per cent in 1979 and export performance was deteriorating. From March 1978 to June 1979, the government's counter measures fluctuated between stabilization and expansionary measures due to the internal disputes between economic bureaucrats, and the economy was getting worse due to the deteriorated export performance (Haggard & Collins 1994: 59–64).

Upon seizing office in May 1980, General Chun and his economic advisors made curbing inflation the top priority of the government's economic policy. However, they also had to address a severe recession and rising unemployment caused by the deteriorating export performance in order to attract political support.

As it turned out, it was a policy to overcome recession rather than high inflation on which the government landed. It increased large public works and housing projects to address the unemployment problem. Strong tax-reduction measures were taken, targeting low-income workers despite the loss of revenue. The budget deficit increased from 1.4 per cent of the GNP in 1979 to 3.2 per cent in 1980 (Haggard & Collins 1994: 82). The government, however, did not legislate or implement any significant government-financed welfare policies.

The policy direction to overcome recession was also shown in the macro-economic policies for business. Interest rates were lowered and the Won devalued. A series of government policies to boost the economy, such as the Economic Counter-measure of 14 January 1982, the Economic Measure of 18 May 1982 and the Counter-measure To Boost Investment of 28 June 1982, were focused on reducing the financial burden on companies by reducing taxes and relaxing conditions of bank loans. These contributed to improved export competitiveness. The imposition of the in-plant training was also relaxed.

By the end of 1982, the Korean economy showed strong signs of recovery. Despite the expansionary economic policy of the government, inflation had fallen. The government, however, still felt an urgent necessity of stabilization policy due to several economic problems. One of the most serious problems was the debt which had grown from 20.3 billion US dollars in 1979 to 37.1 billion US dollars in 1982.

In April 1984 the government issued a revised version of the Fifth Economic and Social Development Five-Year Plan for the years 1981 to 1986, emphasizing inflation

stabilization, increasing exports and savings, and a reduction of external debt. The plan embodied three basic tasks which the Chun government would pursue; to cut the government deficit, limit monetary growth, and reduce the wage-increase rate. Among these tasks, price stabilisation was put at the top of the list (Suh 1992: 26).

The government froze its budget for 1984 in order to show its strong intention to stabilise prices. It reduced the total government deficit as a percentage of GNP from 4.7 per cent in 1981 to 1.4 per cent in 1984.

In addition, the government reduced credit growth to the private sector. The main targets were the policy loans to the heavy and chemical industries. The government also eliminated most interest-rate subsidies to heavy and chemical industries. Consequently, the ratio of preferential policy loans of total domestic credit was cut from 51 per cent in 1978 to 40 per cent in 1984. This policy faced strong resistance from the business community which lost benefits derived from preferential loans and subsidised interest rates.

One of the other main tools to stabilize prices was income policy. Since wage costs were the main portion of the total costs for final goods and services, curbing wage inflation was considered a prerequisite for containing price inflation. The wage restraint policy was especially persuasive because labour-intensive industries constituted a high proportion of Korea's export industries (Kim C. 1994: 214).

The wage freeze on workers in public enterprises in 1984 was a sign of the government's strong commitment to the implementation of income policy. The government argued that the rapid real wage growth of the late 1970s, which outstripped productivity growth, was one of the critical causes of the country's economic difficulties. In 1984, it tried to enforce private enterprises to follow the example of state-owned companies and the civil-service sector whose wage increase had been set by the government (Whang 1992: 318). It imposed a wage freeze on civil servants and military personnel and maintained the wage-increase rate of workers in public enterprises at below 5 per cent until 1987. In addition, the government used the state-owned banks as agents to control wage increases in private companies. The banks pressed their borrowers, mostly large firms, to reduce their debt-equity ratio to specific targets before granting wage raises (Haggard & Collins 1994: 89–90).

The programmes to achieve the goal of «creation of a welfare state» set by the government were carried out under these circumstances. President Chun's idea about the welfare state was not fundamentally different from that of the previous Park government's. What made the Chun's government welfare policy distinctive was that, due to its massive political propaganda, it had to show visible improvements in provision of social welfare.

However, his way to build a welfare state was not much different from that of his predecessor. It still contained a developmental welfare perspective that welfare should be achieved through economic development (Kuznets 1994: 110).

After the launch of the Fifth Republic, the size of the social welfare budget was increasing, but the size of social welfare spending against the government's total spending was not much different from the previous government's, apart from some periods in the 1970s (Table 8).

**Table 8.** *Social Welfare Spending as % of Total Government Spending (%)*

Year	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
%	2.56	2.28	3.98	3.62	3.34	3.06	2.97	3.35	2.84	1.92	2.4	1.55	1.57	1.14
Year	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	
%	2.69	1.83	1.94	1.89	2.52	2.73	2.35	2.5	2.72	2.75	2.89	2.9	3.27	

Source: The Ministry of Health and Social Welfare (1981, 1987, 1988) *Health and Social Affairs*, Kwach'on, the Ministry of Health and Social Welfare, 19, 483, 368 respectively.

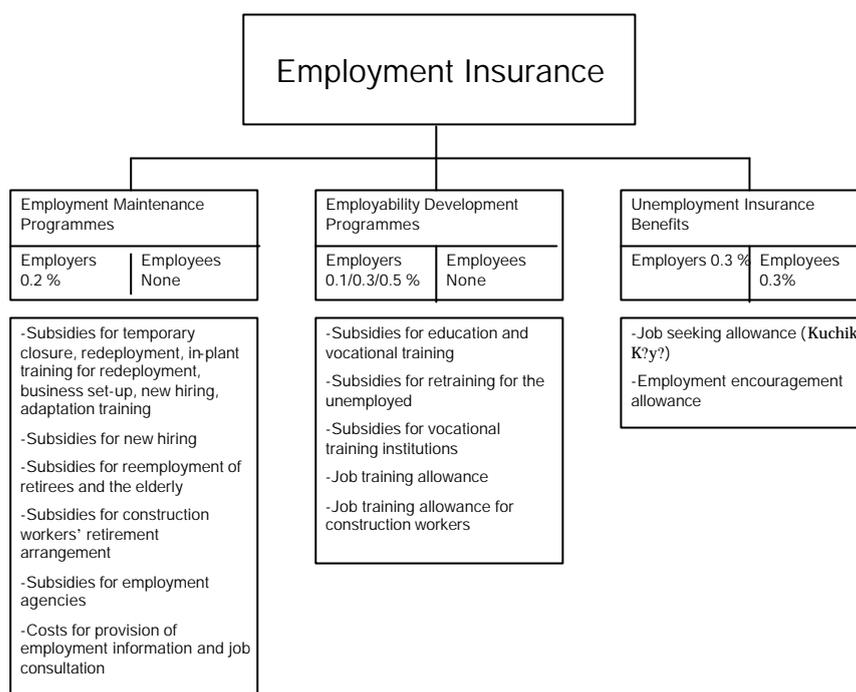
The Korean economy started to recover from late 1984. The inflation rate was reduced and the external balance was improved. In 1985, the government relaxed its strong policy to control inflation and began to expand credits for export, to increase credit lines to small- and medium-sized companies and to depreciate the value of the Won. This expansionary policy direction was reinforced in 1986 when Man-Je Kim, a supporter of the use of credit for industrial policy purposes, was appointed deputy prime minister and head of the Economic Planning Board. The policy change coincided with the drop of world oil prices and international interest rates. The Korean export sector responded quickly. Exports increased by 28 per cent in 1986. The economic recovery accelerated by the export boom continued until 1988.

## The Labour Market Flexibilisation and the Employment Security

Through the period of industrialisation one of the features in the Korean employment pattern was the tendency to retain workers even under the repression. Although the rapid economic growth was obviously one of the main reasons to make this possible, the governments' subsidies to the firms in financial difficulty due to business fluctuation also played a significant role. Although merger and absorption occurred frequently, mass lay-off was not a common phenomenon. The government considered employment to be the most important way to enhance individual welfare, and both employers and employees expected that the government would help the companies to avoid lay-offs. Life-long employment was a widespread expectation and the social insurance programmes and occupational welfare provision, both of which were based on employment contracts, strengthened this belief.

This employment pattern began to be blamed for the dithering economy from the early 1990s. The Korean economy showed a decline in terms of GDP growth of 4.5% from 9.4 % in 1991 while the CPI increased to 6.2%. The Y.S. Kim government launched in 1992 drew up a new economic strategy called the New Economic Plan (Sinkyongche Chongchaek). This aimed to reinvigorate the declining economy under the increasing competition and the newly established international market environment by increasing the national competitiveness.

Figure 3. The Composition of the Employment Insurance



The human capital development was one of the central concerns of the government.

The measures of the Employment Insurance System and the labour market flexibilisation were introduced within this context. The Employment Insurance was legislated in December 1993 and implemented from 1995 with 3.94 million members, 32.5 % of the total employees. The EIS comprised three components, the employment stabilization or maintenance programmes, employability development programmes and unemployment benefits programmes. Each category of programme aimed to protect employment, job and income security respectively. The first two programmes were financed by employers only while the unemployment benefits programmes were financed by both employers and employees (See figure 3). Although there was a programme component to protect the income security of workers, the main focus of the programme was placed upon the facilitation of the economic growth through the protection of the employment and job security dimensions. It was the economic bureaucrats of the human resource development unit of the Economic Planning Board that played a main role in making the basic framework. They formulated and disseminated to the participants of the policy-making process, including the delegates of the FKTU, the idea that the EI should be designed as a complementary element to the employment policies rather than as an unemployment insurance system (The Ministry of Labor 2001: 16–19).

The inclusion of several activation elements to encourage the recipients to participate in the labour market reflected this policy orientation. For instance a claimant was required to register as a job seeker at a public employment office to receive unemployment benefit, and payment of benefits would be suspended for a few weeks if the claimant refused the job placement services or vocational training recommended by the public employment office, unless there were justifiable causes for the refusal.

The complementary role of the EI was re-emphasised during the decision-making process where the coverage of the programmes was dealt with. Despite the general consensus on the necessity of the EI, the Ministry of Industry and Commerce and the Ministry of Labour had different ideas over the financial burden of the companies incurred by the EIS. While the Ministry of Industry and Commerce was concerned with the financial burden of employers proposed for the coverage for companies with 150 or more, the Ministry of Labour covered companies with 10 or more, by which 4.9 million workers, 62.1 % of the total labour force would be covered (Chosun Daily 25<sup>th</sup> of June, 1993). The two ministries' competing proposals were compromised after a year-and-half long discussion as a result of which the unemployment benefit programme would cover the companies with 30 or more, i.e. 3.94 million workers, or 49.9 % of the total labour force, and the other programmes would focus on vocational training for reemployment, and the employment maintenance subsidies covered the companies with 70 or more employees (Chosun Daily 26 Nov. 1994). The feature of the income security protection was watered down through both the policy-making and implementation processes due to the strong role played by the economic bureaucrats.

It is noteworthy, however, that the emphasis on the employment dimension of the EI did not contain the elements to force recipients to work as a compulsory requirement for the benefits, commonly known as the workfare approach (Lødemel and Dahl 2001). The government focused on job-matching services to provide information on jobs rather than on making punitive rules and regulations to link benefit eligibility to work. Participation in vocational training was not a requirement for the benefits either. Anyone who wanted to be trained would be free to participate in the training programs.

The labour law reform to introduce measures of labour market flexibilisation such as numerical structural adjustment was fundamentally different from its predecessor in terms of the policy-making process. The rationale behind the labour law reform was that the labour market flexibilisation was a prerequisite for the enhancement of national competitiveness (Choi et al. 1999: 90). In order to reform the labour laws the government established the Labour Law Revision Committee (LLRC) composed of the three parties of the government, employers and trade unions in May 1996. The establishment of the LLRC represented a great change in the government's attitude towards the labour movement since it included the representatives of the KCTU, the national-level trade union which was highly influential in the labour movement but not legally recognised. While recognising the influence of the KCTU on the labour force, the government also aimed to enhance the image of the first civilian democratic government through this initiative.

The main goal of the government was very much economically oriented, which was to make both the pillar national trade unions of the FKTU and the KCTU agree to the measures of the labour market flexibilisation, such as the introduction of non-regular workers and the relaxation of the restrictions on hiring and firing, while the KCTU tried to use the opportunity to enhance their political status in and outside the formal political arenas. Their main agendas were political issues such as legalisation of multiple trade unionism and eradication of the restrictive rules on the trade union activities.

After a 6-month long discussion at the LLRC, participants could not reach a consensus. The government would not accept the multiple unionism, which they

thought would increase the industrial disputes, while the KCTU would not accept the government measures about the labour market flexibilisation. As a result, the government forcefully passed the Reformed Labour Law which compromised on the conflicting ideas of the government, employers and trade unions. While introducing measures to flexibilise the labour market, it legally recognised the KCTU as the second national trade union but postponed multiple trade unionism at the enterprise level until 2003. Although strong criticism was made by the trade unions and opposition parties against the contents of the bill, the main issue was not its contents, but the way the government and ruling party rammed the bill through parliament in a secret night session (Kim 1998). Both national level trade unions, the FKTU and the KCTU, waged general strikes from 26 December to 28 February 1997 and the government and trade unions collided in the street. Facing strong resistance from the labour force, the government made a new proposal for a labour law through consultation with the opposition parties in March 1997. Several restrictions on lay-off for managerial reasons were added to the new law, and its implementation was postponed to 2000. After a series of labour reform processes, it was the KCTU which gained the tangible result of legalisation. Despite the introduction of the measures of the labour market flexibilisation, employers would not fully resort to law because of the strengthened trade union power shown during the process of labour law reform. The government and employers failed to make the labour market flexible in such a way as to reduce the industrial disputes. The employment security was strengthened as the power of the trade unions increased.

The labour market flexibilisation and the establishment of the Employment Insurance marked an important watershed in terms of the government's policy response to unemployment. This showed that the democratic government began to pay attention to the income dimension of the unemployed, although there were still an emphasis on the employment and job dimension of the security. The failure to introduce the immediate measures to flexibilise the labour market could not reduce the employment dimension of the security.

## **Korean Labour Marker Policies under the Economic Crisis**

The Asian financial crisis spread to Korea in late 1997 and had a catastrophic effect on every aspect of Korean society. Between October and December 1997 the Korean Won was depreciated by 112 per cent against the US Dollar, while the stock of foreign exchange reserves was dropped from 22.3 billion to a mere 3.8 million US Dollars. The worst following the financial crisis was the collapse of more than 17,000 companies – including 8 Chaebol companies which had been highly praised as a locomotive of the rapid economic growth of South Korea. The unemployment rate, which was 2.6 percent in November 1997, increased to 8.6 per cent in February 1998 and the number of the unemployed went up from 0.5 million before the crisis to 1.8 million in February 1998. Taking into account of the fall of the participation rate by 1.5 %, the unemployment rate would have been much lower. It was such an unprecedented one that it was often

described as the «the worst disaster since the Tan'gun (the founding father of the Korean nation, 5000 years ago in the myth)».

**Table 9.** *Composition of Expenditures on EI by Programmes (thousand won)*

	1997	1998	1999	2000
Employment Stabilisation Programmes	19,835	110,873	197,501	125,671
Employability Development Programmes	66,292	270,444	524,678	494,516
Unemployment Benefits	83,254	808,775	946,141	479,423

\*Planning. Actual data is not available yet. Source: The Ministry of Labour (2001) «White Paper of Employment Insurance 2001», Kwachon: The Ministry of Labour: 261–262.

The seismic effect of this crisis also brought about a great change in the labour market and the welfare system in Korea. The international organizations such as IMF which the Korean government relied on for financial rescue demanded the newly elected President Kim Dae Jung to immediately introduce several measures including labour market reform to facilitate the «redeployment of labour», that is, replacement of regular employees with non-regular workers and relaxation of lay-off clauses (Choi et al. 2000: 352).

Although the government felt as much necessity for the flexible labour market as those of the international organizations and Korean employers, it could not implement those measures instantly because of the strong resistance from the labour. Industrial disputes caused by the implementation of those measures would have been detrimental to the Korean economy in the crisis. The government established a tripartite committee to persuade the labour of the necessity for the introduction of the lay-off clauses. The governments put such agenda as the guarantee for the political activities of the trade union within a year, the guarantee for the associational rights of civil servants and the expansion of the budgets for employment security and payment for trade union officials on the negotiation table in order to make a consensus on the labour market flexibilisation. On 7<sup>th</sup> of February 1998, the compromise was made between the government, employers and trade unions and the several measures for labour market flexibilisation were introduced. The two national trade unions, the Federation of Korea Trade Unions (FKTU) and the Korea Confederation of Trade Unions, accepted the establishment of 7 trillion Korean won budget for programmes for the unemployed, associational rights for civil servants and teachers, the guarantee for the laid-off workers to join the trade union above the enterprise level and the guarantee for the political activities of trade unions in return for the acceptance for the labour market flexibilisation measures.

Although the agreement on the introduction of the measures for labour market flexibilisation weakened employment security of workers, the elements to protect employment security still remained. Firstly, the reformed labour law contained an obligation of employers to apply fair standards in selecting employees for dismissal and to consult with trade unions or employees' representative organizations in order to establish a fair and reasonable selection criteria for the lay-offs. The employers should

give a 60-day notice prior to planned dismissal for managerial reasons. And they were required to offer call-back obligation to those laid-off workers. Secondly, the production workers in the manufacturing sector should not be laid off. Thirdly, the criteria, period and reasons for hiring dispatched workers replacing the regular workers should be explicitly explained to trade unions and the period of temporary hiring for dispatched workers was limited to less than three months. These elements together with the presence of the obligation to pay a severance pay to laid-off workers constrained the firms' managerial rights during the numerical adjustment process (OECD 2000: 63).

Realising the fact that the magnitude of the unemployment was bigger than they had expected, the government established several policy measures to counteract the unemployment under the Committee for Unemployment Measures chaired by the Prime Minister in the early 1998.

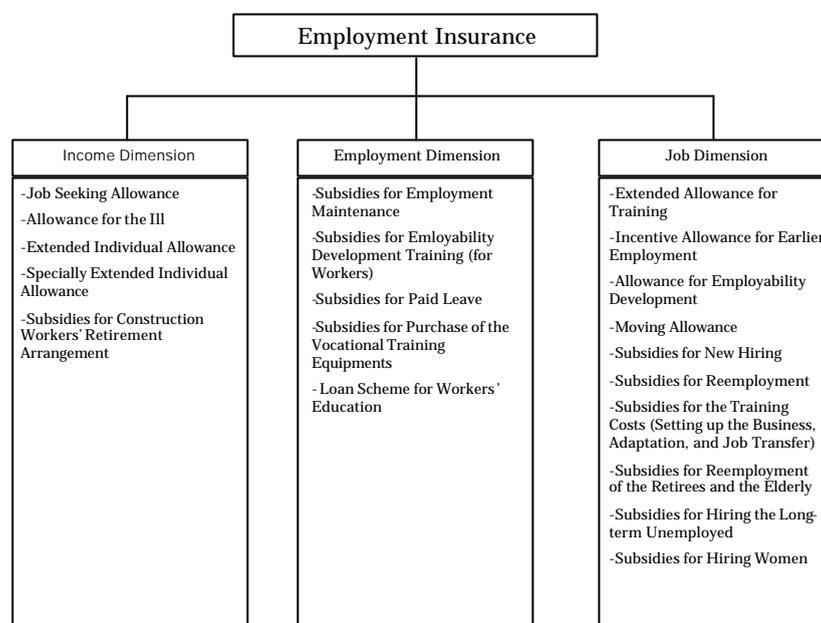
The major policy measures were a large scale public works projects, the reform of the public assistance programmes and the rapid expansion of the coverage of the Employment Insurance Programme.

The rapid expansion of the coverage of the Employment Insurance (EI) was particularly remarkable given the gradual and patched-work pattern of expansion of other social insurance programmes. Responding to the increasing unemployment the government expanded the coverage to firms of 10 workers or more in January 1998, to firms of 5 or more in March 1998, and to all firms irrespective of their sizes. This rapid expansion of the coverage was reflected in the dramatic increase in the expenditure of the EI (See table 9)

Although it cannot be denied that the expansion of the coverage of the EI played a significant role in reducing the pain and sufferings of the unemployed in general, some built-in components in the system resulted in the exclusion of workers from the benefits of the coverage expansion. First of all, despite the expansion of the coverage of the EI, most non-regular workers working less than 18 hours or 80 hours a month, daily workers with a contract less than one month and workers over 65 years of age and new employees over 60 years of age were not covered by the EI due to the eligibility criteria which excluded those non-regular workers. The exclusion of the non-regular workers from the EI coverage was particularly serious since the workers under these categories accounted for more than half of the total paid employees in 1999 and they were the most-likely victims of mass lay-off. Secondly, the take-up rate of benefits to the unemployed was very low. It was estimated that in 1999 only 12.5% of total unemployed was registered as Job Seeking Allowance (Korean version of unemployment benefits without work requirement) recipients. The eligibility criteria of six-month-contribution record and the failure of the contribution from the employer side resulted in such a low take-up rate. The victims of the failure to pay contribution were mostly workers of the small and medium sized companies whose degree of compliance to social insurance programmes as well as other regulations were relatively low. Thirdly, since the benefit level was indexed to the recipients' average income, the recipients with a lower average income suffered from the low income replacement rate. The majority of recipients had been low-waged workers and their job seeking allowances were set below the minimum wage which had already long been criticized for

its impracticably low amount. The exclusionary feature of the EI and low replacement rate of the system played a role in forcing the unemployed to look for a job (Park 1999).

**Figure 4.** *The Programmes of the EI by the Security Dimension*

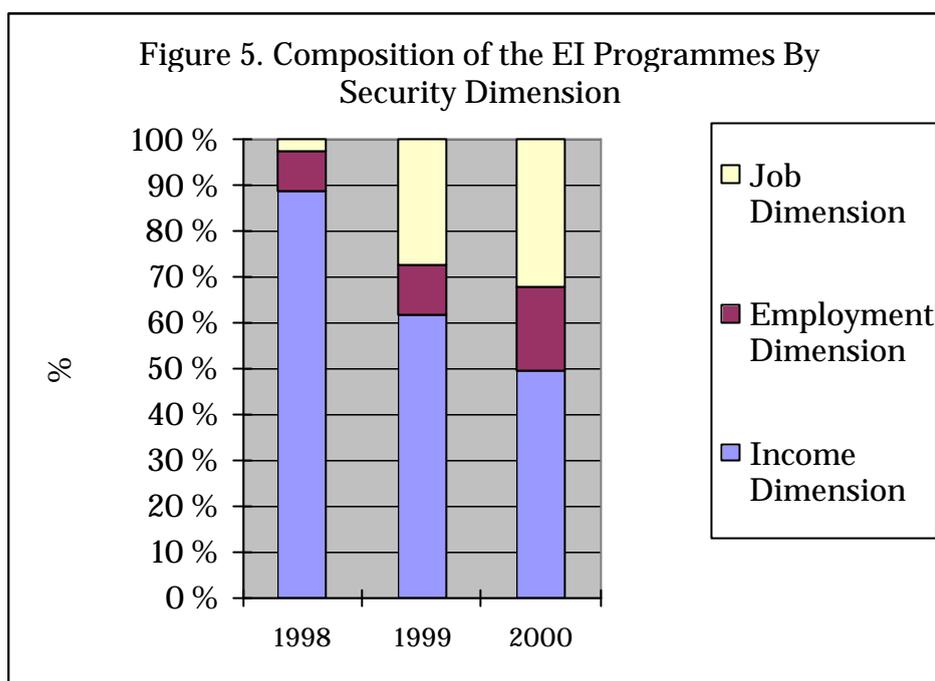


As the coverage expanded, the expenditure on all three programmes of the EI dramatically increased. The composition of the share of each programme, however, also changed. The figure shows that although the share of the expenditure on the income dimension still accounted for a significant part of the total expenditure, it became smaller as the unemployment rate decreased while the share of expenditure on those programmes for employment and job securities larger. Although it is beyond our concern the exact effects of each programmes on the reduction of the unemployment, it is certain that the pushing force of the limited coverage and the pulling power from the increase in the expenditure on the programmes for the employment and job securities must have contributed to forcing the unemployed to re-enter and stay in the labour market.

Another major unemployment policy measure of the Kim government was the National Basic Livelihood Programme established in 1999. Until it was established, the public works projects and the Livelihood Protection Programme (LPP) were mainly used to counteract the unemployment problem and the poverty.

The public works projects had been mostly carried out within Seoul area whose local government was more financially affordable for the projects after 1994 when the financial responsibility for public works projects were transferred to local governments (Abraham 2001: 87). Realising that the magnitude of the unemployment was bigger than expected the government increased public works projects in urban areas from March 1998 and it became the programme on which the government spent the largest amount

of its budgets amongst the programmes addressing the unemployment in 1998 (See table 10).



Source: Human Resource Development of Korea (2000) *Yearly Statistics of Employment Insurance*, Seoul, RDK.

**Table 10.** *Expenditure on the Livelihood Protection for the Unemployed in 1998 By Programme (100 million won)*

Total	Public Works Projects	Unemployment Benefits	Loans to the Unemployed	Assistance for Living Costs
30,346	9,252	8,050	7,1543	5,891

Source : the Ministry of Labour (1999) 1999 Detailed Project Plan for Comprehensive Unemployment Countermeasures, Kwachon, The Ministry of Labour.

About 80% of beneficiaries of the Livelihood Protection Programme were those living outside Seoul before the Financial Crisis since people in Seoul whose housing had a relatively high value did not meet the asset criteria of the LPP. In June 1999 the President Kim proclaimed the Establishment of the Productive Welfare System as one of national goals and announced that the government would propose a bill for the National Basic Livelihood Protection (NBLP) Law which would replace the Livelihood Protection Programme. The purpose of the NBLP programme was to guarantee the basic living standard of the people in poverty (The Assessment Committee of the National Basic Living Protection System 2001: 9). In order to fulfil the purpose the government established the eligibility criteria which was more inclusive than that of the LPP. Firstly, the income and asset criteria of the NBLP was relaxed compared to the previous LPP and people with housing in urban areas could also be included. Secondly,

the family responsibility criteria was also relaxed and the government did not account for the income and asset of brothers and sisters not living with the applicants for the benefits. In spite of these improvements the eligibility criteria was still exclusive due to its low income criteria. The income level to qualify for the benefits was so low that only 3% of the total population could qualify for the benefits while the estimated poverty rate was 7–8%. (The Assessment Group for the National Basic Livelihood System, the Ministry of Health and Welfare 2001: 9–10, 13).

The system also has a built-in element to address the unemployment problem such as conditional living allowance and self-help allowance in order to encourage the recipients to work. In July 2001, 350,000 out of total 1.51 million recipients of the NBLP were those with physical working capacity and 221,000 out of them had jobs (The Assessment Group for the National Basic Livelihood System, the Ministry of Health and Welfare 2001: 151). The governments assessed the conditions of 129,000 unemployed recipients with physical working capacity and selected 61,000 recipients as the conditional recipients who were required to participate in the work or educational programme in return for the living allowances. In other words about 80% of recipients with working capacity were either workers or those under works projects and educational programmes. The meagre benefits and the work requirement for these able-bodied recipients reflect the Kim government's strong emphasis on the «productive welfare».

# Conclusion

Korea and Malaysia have maintained decades of low unemployment compared to other parts of the world. The Asian Financial Crisis, however, disrupted the highly praised economic growth and the low unemployment. Changes in global economic environment such as increases in capital and labour mobility and the structural changes from manufacturing to service and new information technology exacerbated the unemployment problem in these countries. Demands for security for the unemployed were increasing and governments of these countries had to respond to the demand with appropriate policies.

It is not necessarily true, however, that there had not been policy measures to counteract the unemployment in these two countries before the Financial Crisis. The low rates of unemployment during the industrialisation process indirectly shows that there must have been a systematic policy effort to counteract the unemployment problems.

In order to find out how developing countries without a comprehensive unemployment benefits system have coped with the unemployment problems, we established an explanatory framework for the analysis of the unemployment policies, called the recipient-centred approach. The framework offered several advantages in the analysis of the unemployment policies in clarifying the meanings of the widely used concepts such as welfare-to-work, workfare and both active and passive labour market policies. It also enables us to analyse unemployment policies within a much broader range of policy fields and thus bring the countries without specific unemployment benefit programmes into the field of social policy studies.

Since 1957 the Malaysian government consistently pursued the employment policies emphasising the security of job and employment dimensions. The large public sector and the political power of Malays provided the Malaysian government with a leverage to create jobs in the public sector and increase employment of Malays.

Since the early 1980s when the political solidarity of Malays became weakened and Malaysian economy became more dependent upon the foreign investors the Malaysian government's employment policies changed from government-led employment and job securities-oriented policies for Malays to the government-induced market-oriented employment and job-security-oriented policies for Malaysians. Job creation through the invitation of the foreign capital and the development of on-the-job training were the major policy measures of the Malaysian labour market policies. The welfare programmes protecting the income dimension of the security were not developed in proper.

The impact of the Financial Crisis on the labour market was much more serious than what the year-end statistics revealed. As the economy plunged into the recession, the Malaysian government either cancelled or postponed large-scale construction projects.

In order to counteract the consequential large unemployment, Malaysian government carried out a massive scale of repatriation of migrant workers. It was those migrant workers who were mainly victimised during the Crisis and the Malaysian government could maintain the relatively low unemployment rate at the expense of the loss of job security of these migrant workers.

After the Financial Crisis the government's economic strategy emphasising the information technology affected its employment policies. Education and the job training for highly educated university graduates and high skilled workers were emphasised by the government. The government policy is changing from the protection of job security of Malays to that of Malaysians, and from the policy for the majority of the population to a very small segment of society.

Korea also had consistently pursued the job security dimension through the government-led industrialisation. Frequent legitimacy crisis led the government to launch public works projects for job creation. The governments' control over the private businesses made it possible for the government to compel the private business to engage in a massive scale vocational training programmes. The governments' employment policies were mainly determined by both the political and economic needs. The ministries in charge of macro-economic management played a role of veto point in the development of income security and the governments' unemployment policy was designed to protect the dimensions of employment and job securities.

Although there have been a development of social insurance system, those programmes were highly employment-related system and the welfare programmes for the unemployed were very much meagre. The governments' unemployment policies together with their welfare framework have been focusing on workers' welfare rather than the welfare of the unemployed. This pattern of social insurance system continued in the Employment Insurance established in 1995. The major recipients of the system were regular workers working at relatively large sized companies.

The damage caused by the Financial Crisis to the Korean labour market was severe. The unemployment rate increased to the unprecedented level and the demands for the security of the unemployed gained a public support. The coverage of the EI was rapidly expanded to virtually all firms and the public assistance programme, called the National Basic Livelihood Protection Programme was established under the slogan of the «productive welfare». Despite the enhancement of the protection for the income security dimension by the expansion and the establishment of these programmes, the employment policy pattern emphasising the employment and job security dimension still remained in the design and the implementation of the programmes. The programme components of the EI focusing on the employment and job security dimension become larger as the unemployment rate decreased and the low coverage and the modest level of the benefits of the NBLP forced the recipients to work.

Both countries with strong authority and power resources showed several similarities in the operation of the unemployment policies. First, the emphasis on the job and employment security rather than income is found in both countries. Although Korea is considered to be different from Malaysia given its newly established and expanded EI system which had a component securing income dimension, the increasing share of the programmes on job and employment dimensions shows a policy similarity to that of

Malaysia. Secondly, in both countries governments have employed private business for the government employment policies. The governments of these countries employed the private sector to create jobs, secure employment of certain segment of people and to force the companies to do vocational trainings according to the government's economic development plan.

The trajectory of the unemployment policy development of these two countries, however, appears to be diverging rather than converging. Although it is yet too early to judge the success or failure of unemployment policy after the financial crisis, the Malaysian government seems to pursue the employment security for small segment of the labour force, that is, highly educated and skilled while the Korean government for much bigger segment of the labour force, the regular workers. In addition the Korean governments' attention to income dimension of the EI seems to be a significant factor distinguishing the trajectory of Korean welfare state development from that of Malaysian.

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