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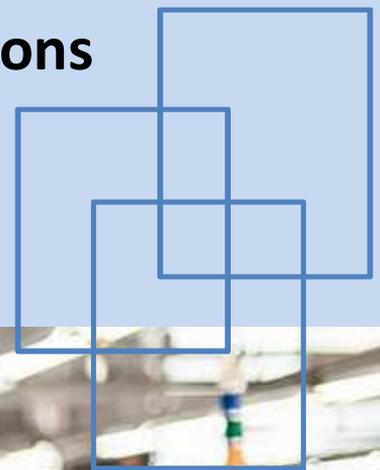


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# Introducing unemployment insurance in ASEAN countries: Challenges and future directions

Yasuhito Asami

December 2013



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# **Introducing unemployment insurance in ASEAN countries: Challenges and future directions**

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## Foreword

While the global economic and financial crisis had a significant impact on the ten Association of Southeast Asian Nations (ASEAN) member countries, the region has rebounded remarkably and economic growth in 2011 reached 6.2 per cent. However, since mid-2011, the external environment for emerging South-East Asia has worsened. The absence of a resolution to the Eurozone sovereign debt crisis and a fragile US recovery threaten another global economic crisis.

In the context of the uncertain post-crisis recovery, the unemployment rate still stands at 5.1 per cent in 2010, compared to a high rate of 5.2 per cent in 2009. In addition, the official unemployment rate might disguise a higher share of underemployed and increasing vulnerable employment among the working population in ASEAN. The number of workers in vulnerable employment, own-account, and contributing family workers still accounts for around 180 million in 2011, or 62 per cent of all workers.

In most ASEAN countries, where there is no unemployment insurance or other statutory income support programmes for the unemployed, there exists legal provisions for severance pay under the various labour laws and employment acts. However, enforcement of severance pay provisions under the liability of employers remains a major challenge, especially during economic downturns and restructuring. Furthermore, severance pay does not comply with international social security standards. These standards stipulate that unemployment protection should correspond to periodic benefits, rather than one-off payments, and pursue a risk pooling function.

The recent financial crisis has underscored the critical roles social security systems play both as an income replacement mechanism and as a potential policy tool to help smooth consumption and retain employment in times of economic downturn. Among the set of social protection policies, unemployment insurance benefits, combined with employment promotion measures, will secure a partial and temporary income to those who lose their employment in the formal economy, help them to return to work, and therefore prevent them to join the rows of the informal economy. For those working in the informal economy, the concept of “unemployment” does not really apply. The real issues are underemployment and often the unprotected character of existing employment opportunities. For workers in vulnerable employment, a combination of public employment programmes, transfers in-cash (e.g. minimum income guarantee schemes, vocational training allowance) and in-kind (e.g. counselling, skills development, access to bank account) may be more suitable. Such measures are among the foundations of the Social Protection Floor.

The results of this study provide a rationale for ASEAN policy-makers to consider introducing unemployment or employment insurance systems. The following report details why ASEAN governments might consider substituting or complementing existing severance pay policies with new forms of income security for the unemployed, on the basis of periodical payment and social insurance principles and combined with employment support measures. Such schemes are recommended by the Social Security (minimum standards) Convention, 102 (1952) and the Employment Promotion and Protection against Unemployment Convention, 168 (1988).

This research is part of an ASEAN initiative which aims at “Promoting and Building Unemployment Insurance and Employment Services in ASEAN” sponsored by the Government of Japan. Preliminary findings were discussed during the ASEAN tripartite seminar on Unemployment Insurance, Income Security, and Active Labour Market Policies in Ho Chi Minh City, Viet Nam, 20-22 March 2012, and later at the Experts’ Meeting on the Design of Unemployment Insurance Systems: Learning from ASEAN Experiences, in Manila, Philippines, 19-20 November 2012.

The research will be supplemented by a review of protection measures for those not covered by unemployment insurance benefits, e.g. long-term unemployed, informal economy workers, the new entrants to the labour market.

We have no doubt that this set of researches will support the efforts of ILO’s constituents to improve unemployment protection in ASEAN.

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## Abbreviations

ALMP	Active Labour Market Programme
APINDO	Asosiasi Pengusaha Indonesia ( <i>in English: Indonesian Employers Association</i> )
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of Southeast Asian Nations
B.E.	Buddhist Era <sup>2</sup>
DOLE	Department of Labour and Employment (Philippines)
ESO	Employment Service Office
GDP	Gross Domestic Product
ILO	International Labour Organization
LC	Labour Code
LFS	Labour Force Survey
LPA	Labour Protection Act
MA	Manpower Act
MOLISA	Ministry of Labor, Invalids, and Social Affairs
NEM	National Economic Model
OECD	Organisation for Economic Co-operation and Development
THB	Thai Baht
UI	Unemployment insurance
US	United States
USD	United States Dollars
VND	Viet Nam Dong
VSS	Vietnam Social Security

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<sup>2</sup> There is a 543 years difference between the Buddhist calendar and the Gregorian calendar. Year 2012 in Europe is year 2555 in Thailand.

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## Executive Summary

Unemployment insurance provides protection to formal employees who face temporarily unemployment due to economic downturn and restructuring of the economy. For those working in the informal economy, protection can be provided through social assistance programmes, support to entrepreneurship, vocational training, public work programmes among other measures aiming to increase capabilities and employability. Those measures are part of the Social Protection Floor (SPF).

The present research focuses on exploring challenges and possible recommendations for the implementation of unemployment protection measures, which are usually more suitable for those in formal employment.

In order to derive practical policy recommendations for ASEAN countries regarding social protection for unemployed workers, this report first dispels some of the myths about unemployment insurance with empirical data and case studies.

Unemployment insurance is commonly believed to place an additional heavy burden on government resources. However, experiences from Thailand and Viet Nam show that by keeping the amount and the duration of unemployment benefits low and short, unemployment schemes do not always require much government funding to be sustainable<sup>3</sup>. In all cases, level of benefits should be kept in line with the two related ILO Conventions: Social Security (minimum standards) Convention, No. 102 (1952) and Employment Promotion and Protection against Unemployment, No.168 (1988). The first recommends that unemployment insurance benefits may be limited to 13 weeks within a period of 12 months, and where the protection covers all resident whose means do not exceed prescribed limits, this duration may be limited to 26 weeks within a period of 12 months. Under Convention No.168 the initial duration of payment of the benefit may be limited to 26 weeks in each spell of unemployment or to 39 weeks over any period of 24 months. Under Convention No.102, The amount of benefits for a standard beneficiary (man with wife and two children) must attain 45 per cent of the reference wage; 50 per cent under No.168 which applies in case of suspension of work without any break in the employment relationship.<sup>4</sup>

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<sup>3</sup> In Thailand, only those who are laid off receive 50 per cent of insured earnings and for up to 180 days; those who voluntarily resign will only receive 30 per cent up to 90 days. In Viet Nam, the benefits rate is set at 60 per cent of past contributory earnings for a duration of up to 3 months within a year. The benefit duration then increased with the period of contributory employment.

<sup>4</sup> ILO, 2002: *Standards for the XXIst century: Social Security* (Geneva)<sup>5</sup> Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand and Viet Nam.

The examples of Thailand and Viet Nam also show that even limited unemployment benefits of short duration can better meet the needs of the unemployed of the formal economy than compulsory severance pay programmes. From a social equity viewpoint, it seems justifiable to provide limited unemployment benefits of short duration in ASEAN countries since workers covered by unemployment insurance are often not the most distressed in their societies. Those who work in the informal economy and underemployed workers often have greater need for social assistance than those who are eligible for unemployment insurance.

The second belief is that the introduction of unemployment benefits will increase the number of unemployed. As Thailand's eight-year experience with unemployment insurance shows, the implementation of unemployment insurance does not necessarily increase the number of the unemployed. Laid-off workers in Thailand receive only 50 per cent of their pre-lay-off salary for a maximum of six months; in Viet Nam workers receive 60 per cent of their past earnings for a maximum of twelve months. Unless their salary was more than twice as high as the subsistence level, beneficiaries cannot survive by solely relying on unemployment benefits. Limited unemployment benefits give strong incentives for unemployed workers to look for new jobs.

A third common assumption is that unemployment insurance adversely affects international competitiveness by increasing the cost of doing business. If the contribution rate is kept low as in the cases of Thailand and Viet Nam, the adverse effect of unemployment insurance on international competitiveness can be minimized. Employers are required to pay only 0.5 per cent and 1 per cent of their workers' salary as unemployment insurance premiums in Thailand and Viet Nam, respectively. The impact of these payments can be offset if unemployment insurance functions well, making industrial restructuring easier and by promoting skills development.

ASEAN countries will continue to pursue reforms towards greater economic openness and search for more business opportunities. Such reforms will inevitably imply some amendments to the existing labour laws. Economic reforms, however, should not be conducted solely at the expense of workers. Unemployment insurance and reinforced active labour market policies should complement economic reforms, guaranteeing the right to social security for all workers.

Based on an empirical analysis of labour market situations, a close examination of existing mandatory severance pay programmes in ASEAN countries, a careful evaluation of unemployment insurance schemes in Thailand and Viet Nam, and recommendations contained in relevant ILO standards, this report draws the following policy recommendations:

1) Compulsory severance pay schemes often fail to alleviate the difficulties faced by laid-off workers. Unemployment insurance will improve the protection of those working in the formal economy; however, this will require reinforcing efficiency and transparency of public governance and strengthening institutional capacities. Introducing unemployment insurance schemes should be part of a comprehensive national social protection strategy, which will aim to progressively reach universal coverage and higher level of benefits, and will link with decent and productive employment promotion policies.

2) A low-cost model of unemployment insurance that provides limited benefits of short duration, in line with the ILO standards, is suitable for ASEAN countries. This model prevents increasing social inequities in countries where only a minority of workers would be insured.

3) Active labour market policies, e.g. measures to retain employment and/or increase worker capability and employability, are a crucial element of an unemployment insurance system. Thailand and Viet Nam now realize that this component of the system, which was somewhat neglected in the implementation of the scheme, need to be reinforced. Contributions paid by the workers, however, should not be spent on active labour market programmes. International experiences suggest that such measures should be financed by employers and governments as an effort to increase competitiveness of the economy.

4) In the ASEAN context, voluntary quitters should not be left completely unprotected, unless government agencies have effective and efficient mechanisms to distinguish genuine voluntary quitters from "disguised" or "forced" voluntary quitters.

5) The ILO standards, as well as many international practices, recommend no overlapping in compensation from compulsory severance pay and unemployment insurance schemes.

## 1. Quest for effective unemployment protection in ASEAN

Globalization brings opportunities for rapid economic growth, but also volatilities due to international business cycles with often severe impact on employment . In most of the ASEAN countries<sup>5</sup>, where there is no unemployment insurance or other statutory income support programmes for the unemployed, there exist legal provisions under the labour laws and employment acts obliging employers to pay a lump sum equivalent to several months' salary to workers who are laid off. Enforcement of the severance pay provisions under the liability of the employers remains a major challenge in time of economic slowdown and restructuration. In addition, severance pay does not comply with the international social security standards under which unemployment protection should correspond to periodical benefits, rather than one-off payment, and pursue a risk pooling function. Furthermore, severance pay system does not include links with employment support policies, thus leaving the unemployed without assistance to return to work.

In this context, the international financial and economic crisis in 2009 served as a reminder that social security is a human right and an economic necessity. Social Security is enshrined as such in the Universal Declaration of Human Rights (Article 22). The ILO's flagship instrument to promote such rights is the Social Security (minimum standards) Convention, 1952 (No. 102), and the recently adopted Recommendations Concerning National Floors of Social Protection, 2012 (No. 202).<sup>6</sup> Also, the past financial crisis has underscored the critical role social security systems play, both as an income replacement mechanism and as a potential policy tool to help smooth the consumption and retain employment in times of economic downturn<sup>7</sup>. Through social insurance and assistance programmes, social security helps to prevent people from falling into poverty and to smooth consumption, thus allowing a certain level of domestic demand when export markets are shrinking. As such, they also avoid or lessen social tensions.

In the ASEAN region, social protection is recognized as one of the priority to achieve growth

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<sup>5</sup> Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand and Viet Nam.

<sup>6</sup> At its 101st session (2012), the International Labour Conference (ILC) adopted the Recommendation concerning National Floors of Social Protection, 2012 (No.202) which reaffirms the role of social security as a human right and as a social and economic necessity.. The ILC also adopted<sup>7</sup> the resolution concerning efforts to make social protection floors a national reality worldwide.

<sup>7</sup> ILO, 2009: Magazine World of Work 67, December 2009: Social security as a crisis response; Ageing societies; Extending health care...

with equity and support the ASEAN integration by 2015. On 9 October 2013, in Brunei Darussalam, the ten ASEAN Leaders adopted a Declaration on Strengthening Social Protection.<sup>8</sup> It reaffirms the Member States' commitment to build an ASEAN community socially responsible and people oriented by 2015 by, notably, fostering social protection floors in the region. The Declaration is closely aligned with the guiding principles prescribed by the Social Security (Minimum Standards) Convention, 1952 (No.102) and the Social Protection Floors Recommendation, 2012 (No.202). Certain governments, namely, Cambodia, Indonesia, Thailand, Viet Nam, Lao PDR, Myanmar and the Philippines, have already committed to promote and implement nationally defined social protection floors as a first step in extending social security coverage.

Among the set of social protection policies, unemployment insurance benefits as well as other measures to support income and employment security of the unemployed, those at risk to lose their job, underemployed<sup>9</sup>, vulnerable workers<sup>10</sup>, long-term unemployed and unemployed youth<sup>11</sup>, will help to ensure that progress in the region towards decent work and poverty reduction is not reversed. Unemployment insurance benefits have proven to effectively mitigate the negative effects of economic shocks on workers in formal employment and their families, labour markets, and economic growth, especially when combined with effective active labour market policies. A growing number of studies now point out the importance of employment and income security provisions in order for developing countries to maintain their growth path and to thrive in an increasingly dynamic but unstable international economic environment. In general, active labour market policies (ALMPs) targeting at the unemployed include job search assistance; training or re-training programmes to increase employability; job creation programmes under the form of public works; wage and employment subsidies to encourage hiring of unemployed or retaining employment; work-sharing programmes; income support to job-seekers returning to part-time employment; self-employment assistance/ micro-enterprises development; credit

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<sup>8</sup> <http://www.social-protection.org/gimi/gess/ShowProjectNews.do?nid=16890&pid=1385>

<sup>9</sup> Underemployment is usually defined as an employment situation where workers are employed but not in the capacity they desire, e.g. in terms of compensation, hours or work, skill levels and experience (ILO, 2010: *Viet Nam Employment Trends 2010*). Underemployment is defined as those who work less than 35 hours a week (ILO, 2011: *Global Employment Trends 2010*).

<sup>10</sup> Vulnerable employment is defined as the sum of own-account workers and contributing family workers (ILO, 2011: *Global Employment Trends Report 2011*).

<sup>11</sup> The unemployed youth comprise all persons between the age of 15 and 24 who, during the reference period, were: (a) without work; i.e. had not worked for even one hour in any economic activity (paid employment, self-employment, or unpaid work for a family business or farm); (b) currently available for work; and (c) actively seeking work; i.e. had taken active steps to see work during a specified recent period (usually the past four weeks). (<http://www.ilo.org/public/english/employment/yen/whatwedo/projects/indicators/2.htm>)

access, tax breaks, among others.

It is not, however, feasible for ASEAN countries to implement costly OECD-style social protection programmes, which will require well developed employment services and vocational trainings programmes. Hence, there is a need for a more cost-effective social protection approach that suits better economic conditions and administrative capabilities of ASEAN countries. Several ASEAN countries reformed their social protection programmes in recent decades, including unemployment protection. Especially notable are the introduction of unemployment insurance in Thailand and Viet Nam in 2004 and 2009, respectively.

However, universal protection will be hardly reached through the sole establishment of unemployment insurance schemes in South East Asian and Pacific countries where the informal economy is estimated to yet represent 185 million in 2012<sup>12</sup>. Alternative measures, such as social assistance programmes, employment support and vocational training services, public work programmes, community work, support to entrepreneurship aimed to protect the underemployed long-term unemployed, new entrants and vulnerable workers will have to be developed. Those measures aimed at securing income of the working age population constitute one of the guarantees of the Social Protection Floor (SPF). SPFs are nationally defined sets of basic social security guarantees that enable and empower all members of a society to access a minimum of goods and services. They aim to prevent and alleviate poverty, vulnerability and social exclusion.

In designing and implementing nationally-defined SPFs, countries should combine measures aimed at securing income and increasing employability. These measures should be carefully coordinated with other policies that enhance formal, decent and productive employment in order to graduate vulnerable workers out of poverty.

Therefore, government and social partners' efforts to develop national social protection strategies should not only aim at protecting those in formal employment but also those in the informal economy, the vulnerable and poor. National social protection strategies should seek to achieve comprehensive social security systems by providing progressively higher level of protection to as many people as possible, in line with the socio-economic level of the countries. In this sense, it is advisable that ASEAN governments, at the same time that negotiations are happening to introduce unemployment insurance, also design, finance and implement sustainable and coordinated programmes for informal economy workers, long-term unemployed and new entrants. By examining ASEAN countries' experiences, this report aims to review the challenges and propose recommendations for introducing

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<sup>12</sup> ILO, 2013: *Global Employment Trends Report, 2013* (Geneva)

unemployment insurance schemes, which would be financially and administratively feasible in the region. The report does not intend to provide recommendations for the implementation of measures for the informal economy such as those defined in the SPF. Such research will be the intent of a complementary research.

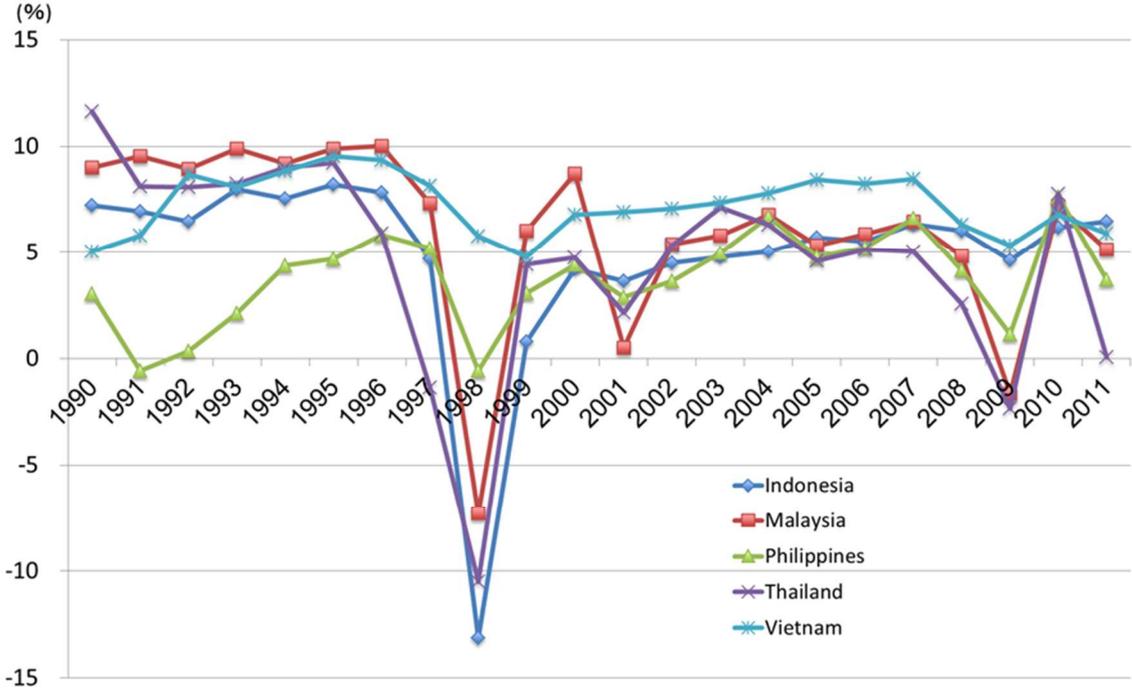
The next section provides an overview of employment patterns in ASEAN countries and their policy frameworks to protect unemployed workers. Most ASEAN countries have compulsory severance pay as their main policy tool to provide at least a certain level of compensation in cases of job loss. Section 3 compares compulsory severance pay programmes in the region and discusses weakness of such programmes. Section 4 examines unemployment insurance systems in Thailand and Viet Nam in order to assess the feasibility of implementing unemployment insurance in other ASEAN countries.. The final section summarizes policy recommendations for ASEAN countries.

## **2. Overview of economic conditions and employment structures in ASEAN countries**

### **2-1. Implication of economic growth that is highly dependent on international markets on workers' protection**

The ASEAN economies have achieved fairly high economic growth rates over the past two decades. As shown in figure 1, however, they have also experienced sudden economic downturns in 1997-1998 and 2009. Despite their differences in natural resource endowments, industrial structures, and the size of Gross Domestic Product (GDP), the growth rates of almost all the ASEAN countries rapidly declined when the region was hit by these two international economic crises. Economic openness is often pointed out as a driving force for rapid economic growth but also as a cause for growing vulnerability to external shocks.

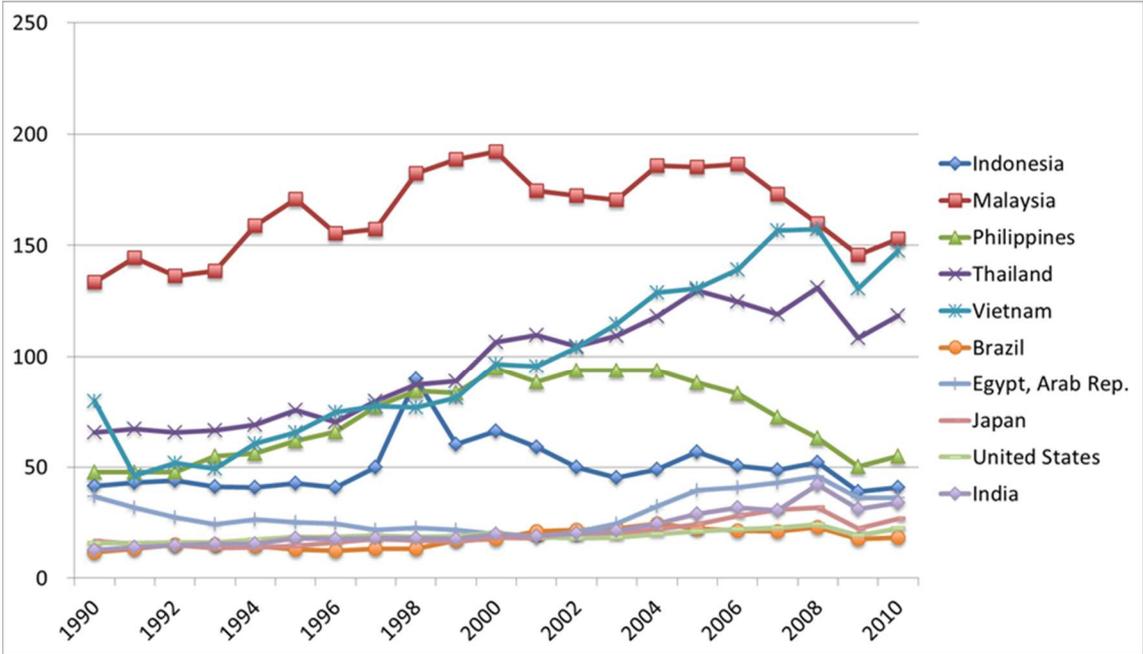
Figure 1. GDP growth rates of selected ASEAN countries, 1990-2011



Source: World Bank, World Development Indicators

Figure 2 shows that ASEAN economies depend more heavily on trade than other developing countries such as India, Egypt, and Brazil, as well as developed countries with large domestic markets such as the United States and Japan. It also shows that Malaysia, Thailand, and Viet Nam have a higher degree of economic openness than Indonesia and the Philippines. The average economic growth rates over the past two decades for the three countries with more economic openness have been better than for the latter two. This economic openness, however, exposed Thailand and Malaysia to severe economic downturns during the two economic crises, as can be seen in figure 1.

Figure 2. Merchandise trade as a percentage of GDP, 1990-2010



Source: World Bank, World Development Indicators

The adoption of new economic models and labour law reforms are closely linked. In Indonesia, Malaysia, and the Philippines, the rigidity of the labour laws (hiring and firing rules) have adverse effects on the labour market, such as the reluctance of enterprises to hire workers on long-term contracts and to invest in their employees in terms of training and career development. Planned labour law reforms in Indonesia and the Philippines aim to address these issues by introducing rules that allow for higher degrees of flexibility in hiring and firing decisions. To mitigate possible adverse effects of the new policies on workers, the government of Indonesia has also clearly committed to reinforce and extend its social security system. Likewise, the introduction of an unemployment benefits scheme in the Philippines has been identified as a priority in the Labor and Employment Plan (2011-2016) in view of building a more comprehensive workers’ protection system. In Malaysia, the National Economic Model (NEM), unveiled on 30 March 2010, aims to transform the country from a middle-income to a high-income country by 2020.<sup>13</sup> The NEM proposes a number of strategic reform initiatives that “emphasize high skilled human capital, efficient public services, a reinvigorated private sector and equal opportunities for all Malaysians.” It also includes a number of policies that will contribute to increased flexibility in hiring and firing workers. To mitigate the impact of this increased flexibility, the NEM recommends enhancing

<sup>13</sup> Details can be found on the National Economic Advisory Council website: <http://www.neac.gov.my/>

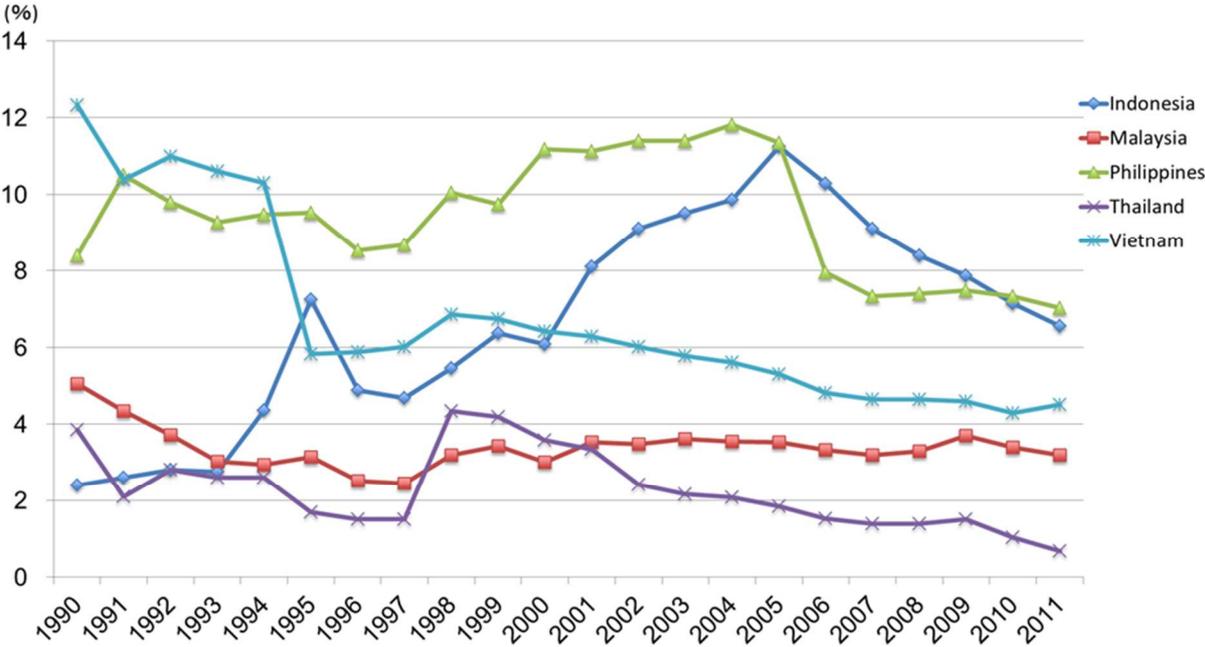
workers' protection through the introduction of unemployment insurance along with reinforced and integrated employment services. The experiences of these three countries reiterate that economic reforms and subsequent adjustments to the labour law do not need to be conducted solely at the expense of workers. Economic reforms can be facilitated by the introduction of unemployment benefits and reinforced active labour market policies.

To conclude, economic openness is a double-edged sword for newly industrializing countries. While economic openness can accelerate growth under favorable conditions, it can also increase the risk of sudden economic shocks caused by an unfavorable international economic environment. These shocks have repercussions on domestic labour markets, which often translate into growing vulnerable employment and poverty. As long as ASEAN countries aspire to rapid economic growth at least in part through an export-orientated strategy, they are very likely to face occasional economic shocks in the coming decades. It is necessary for ASEAN countries to develop effective social protection schemes to mitigate probable future economic disturbances.

## **2-2. Divergence in unemployment rates; informal employment yet the main challenge**

Despite common trends in GDP growth rates among ASEAN countries (figure 1), unemployment rate trends (figure 3) show few similarities over the last two decades. In order to analyze the reasons behind the divergent trends in unemployment rates, we present scatter plots comparing unemployment rates with GDP growth rates (figures 4, 8, 12, 16, and 20) and real GDP index (figures 5, 9, 13, 17, and 21).

Figure 3. Unemployment rates in selected ASEAN countries



Source: World Bank, World Development Indicators

Contrary to the conventional wisdom that unemployment rates are negatively correlated to GDP and GDP growth rates, the scatter plots presented in the following sections indicate that, in ASEAN countries, unemployment rates are not always negatively correlated with GDP or its growth rates. A notable exception is the increase in unemployment rates during the Asian economic crisis in 1997-1998, in which the GDP growth rates of all five ASEAN countries declined and their unemployment rates went up. This correlation, however, quickly disappeared after the crisis.

It should be noted here that "unemployment" is an imprecise concept in a countries where a large portion of labour force works as own-account workers or unpaid family workers in the informal economy. The Resolution concerning statistics of the economically active population, employment, unemployment and underemployment, 1982, puts forward "without work", "currently available for work", and "seeking work" as the defining characteristics of the unemployed.<sup>14</sup> However, it also says that "in situations where the conventional means of seeking work are of limited relevance, where the labour market is largely unorganized or of limited scope, where labour absorption is, at the time, inadequate,

<sup>14</sup> This resolution was adopted by the 13th International Conference of Labour Statisticians in 1982, and downloadable at ILO's website: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms\\_087481.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_087481.pdf).

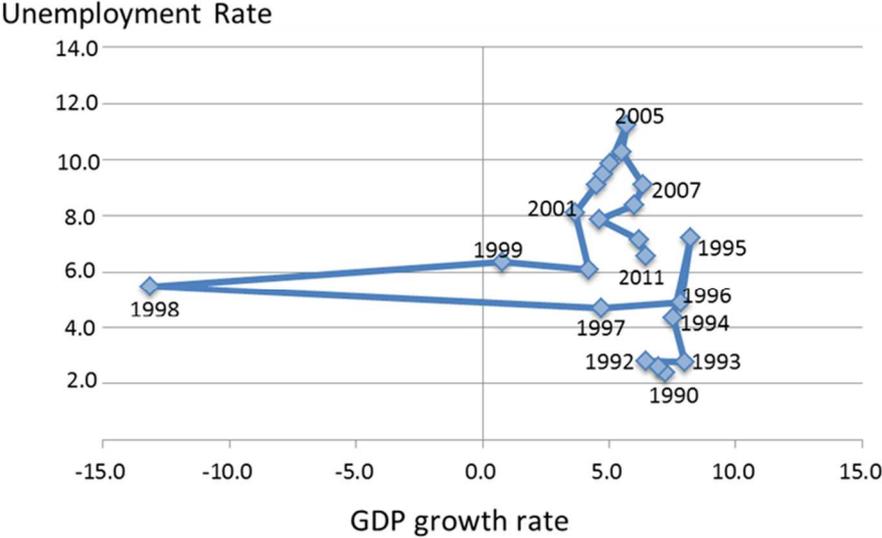
or where the labour force is largely self-employed," the standard definition of unemployment may be applied by relaxing the criteria of "seeking work" and "currently available for work." As suggested by this resolution, many ASEAN countries relax some of the standard criteria. The relaxation of the criteria differs among ASEAN countries, making cross-country comparisons of unemployment rates in the region difficult. Therefore, in this section, we rely mainly on time-series analysis of unemployment rates in each country. Time-series analysis, however, also faces problems of data inconsistency for two of the five countries we examine, namely Indonesia and the Philippines, which changed the definition of unemployment in their Labour Force Survey in the period considered. In addition, the distinction between unpaid family workers and the unemployed is often arbitrary in most of ASEAN countries.

Keeping the issues of official unemployment figures in mind, we will examine the divergent trajectories of unemployment in five of the ASEAN countries in some detail below.

### **(1) Indonesia**

The unemployment rate in Indonesia during the last two decades fluctuated in a mysterious way. The unemployment rate jumped from 2.4 per cent in 1990 to 7.2 per cent in 1995 even though the Indonesian economy was in boom, as shown in figure 4. The 1997-1998 Asian economic crisis seriously impacted the Indonesian economy. GDP contracted by as much as 13.1 per cent in 1998. Astonishingly, Indonesia's unemployment rate increased little during the crisis but surged after the Indonesian economy recovered from the crisis. The unemployment rate peaked at 11.2 per cent in 2005 and then steadily fell to 6.6 per cent in 2011 even though there were no significant changes in the GDP growth rate during the decade.

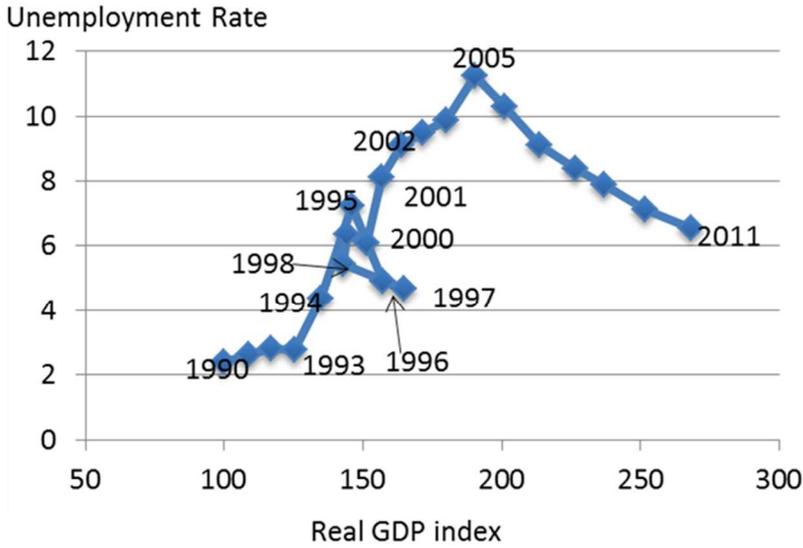
**Figure 4. Unemployment rate and GDP growth in Indonesia, 1990-2011**



Source: World Bank, World Development Indicators

The scatter plot relating the real GDP index to the unemployment rate clearly depicts the peculiarity of Indonesia's unemployment situation (figure 5). The graph shows a strong positive correlation between real GDP and the unemployment rate for the period of 1990-2005 ( $r=0.89$   $n=16$ ) and a strong negative correlation for the 2005-2011 period ( $r=-0.98$   $n=7$ ).

**Figure 5. Unemployment rate and real GDP index in Indonesia, 1990-2011**

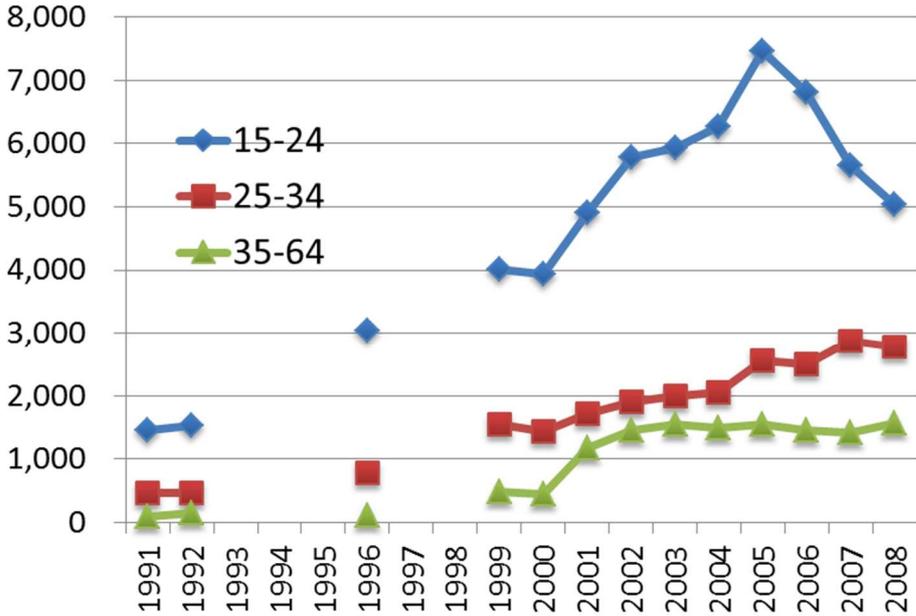


Source: World Bank, World Development Indicators

The rapid increase in the unemployment rate during the 1990 and 2005 period is partially attributable to the changes in the definition of the unemployed. Indonesia relaxed the criteria for the unemployed in 1994 and 2001.<sup>15</sup> Increases in the unemployment rate in 1994 and 2005 would have been smaller if some of the criteria for identifying the unemployed had not been relaxed. The large increase in the official unemployment rate in 1995 is mainly due to the use of a very different sampling method (Suryadarma, Suryahadi, and Sumarto, 2005, p. 5).

Even if one takes into account these statistical issues, it seems safe to say that the Indonesian unemployment rate did in fact increase in the 1990s and in the early half of the 2000s, though probably at a much slower pace than the official unemployment figures suggest. In order to analyze reasons behind the perplexing correlations between the real GDP index and the unemployment rate, we disaggregated the unemployed into three age groups in figure 6.

Figure 6. Number of unemployed in Indonesia by age, 1991-2008 (in thousands)



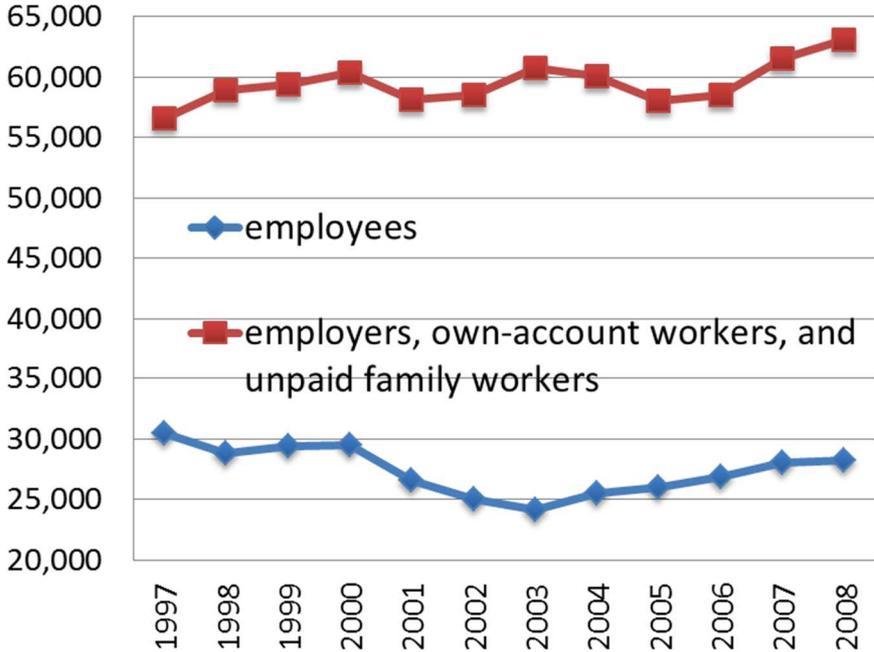
Source: ILO, LABORSTA

The number of unemployed youth increased faster than that of other generations until 2005. Unlike in other ASEAN countries, Indonesian labour laws strictly restrict employers' power to dismiss workers (Caraway, 2004; Johnson, 2011). In the wake of the Asian economic crisis,

<sup>15</sup> For more details on the changes of the definition of the unemployed in Indonesia and their impacts on the official unemployment figures, please see Suryadarma, Suryahadi, and Sumarto (2005).

many Indonesian employers came to strongly feel that the excess employees caused by such restrictions on lay-offs in combination with the economic downturn seriously jeopardized their businesses. Traumatic experiences during the crisis discouraged many employers in Indonesia from hiring new workers, even after the GDP growth rate started to rise again. This is evidenced in figure 7, which shows that the number of employees declined until 2003. Although the number of other types of workers increased, this increase was not large enough to offset the decline of the total number of employees. Also of interest, figure 7 shows that employees are a relatively small portion of Indonesia's overall labour force.

**Figure 7. Number of employees and other types of workers in Indonesia, 1997-2008 (in thousands)**



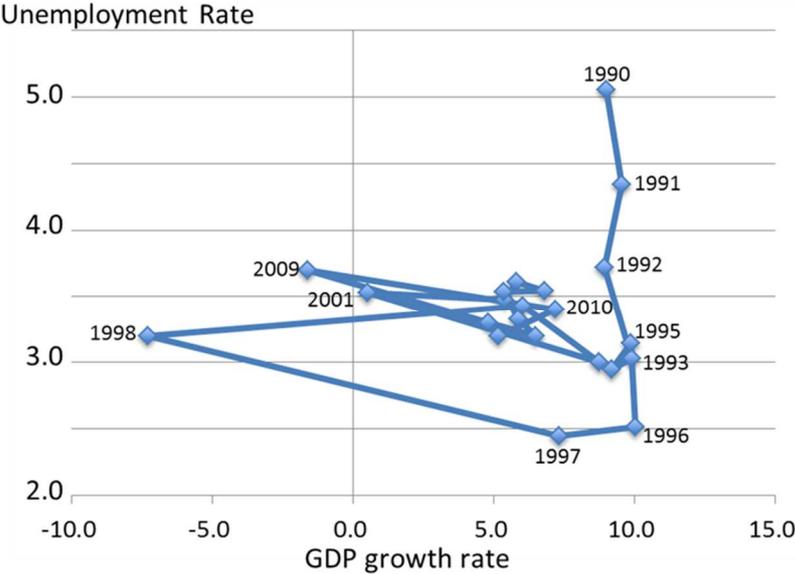
Source: ILO, LABORSTA

Many of the unemployed workers with families to support and limited savings entered the informal economy as own-account or unpaid family workers. Meanwhile, many unemployed, unmarried youth relied on parental support and remained unemployed when job opportunities in the formal sector continued to decline after the crisis. Employers in the formal sector slowly started hiring new workers in the latter half of the 2000s, partly because of an improving economic outlook and partly because of market-oriented labour law reforms (Tjandra, 2008). Employers preferred to hire flexible, young new graduates, which resulted in a decline in the number of unemployed youth and little change in the unemployment rates among older workers.

**(2) Malaysia**

Malaysia had a high unemployment rate in the latter half of the 1980s. The yearly average unemployment rate between 1985 and 1989 was 7.6 per cent. However, as shown in figure 8, the unemployment rate declined over the first seven years of the 1990s. The Malaysian economy was also negatively impacted by the Asian economic crisis. The Malaysian unemployment rate increased from 2.4 per cent in 1997 to 3.2 per cent in 1998. The Malaysian economy, however, recovered quickly and grew at between 4.8 to 8.7 per cent annually since then, except for in 2001 and 2009. The unemployment rate has remained almost unchanged in the 2000s.

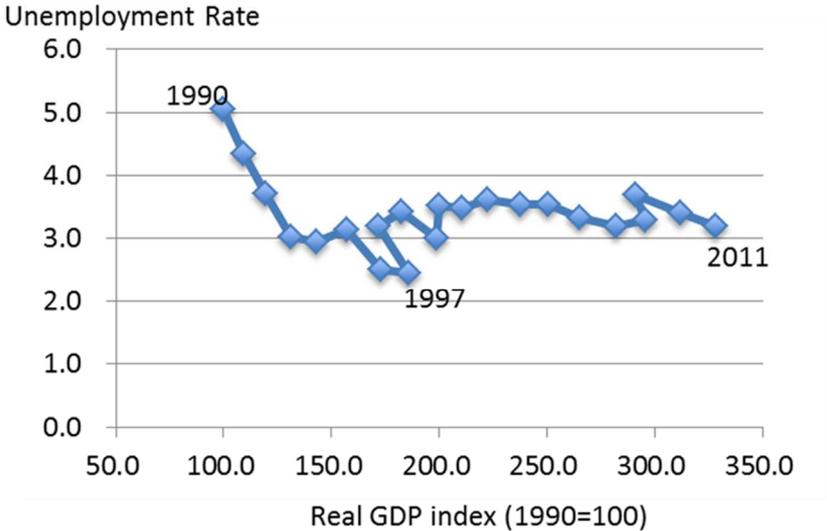
**Figure 8. Unemployment rate and GDP growth in Malaysia, 1990-2011**



Source: World Bank, World Development Indicators

Figure 9 shows that the correlations between unemployment rate and real GDP in Malaysia are quite different from those of Indonesia. Malaysia's unemployment rate had a strong negative correlation with real GDP ( $r=-0.91$   $n=8$ ) between 1990 and 1997. However, the negative correlation completely disappeared ( $r=0.25$   $n=15$ ) for the period 1997-2011.

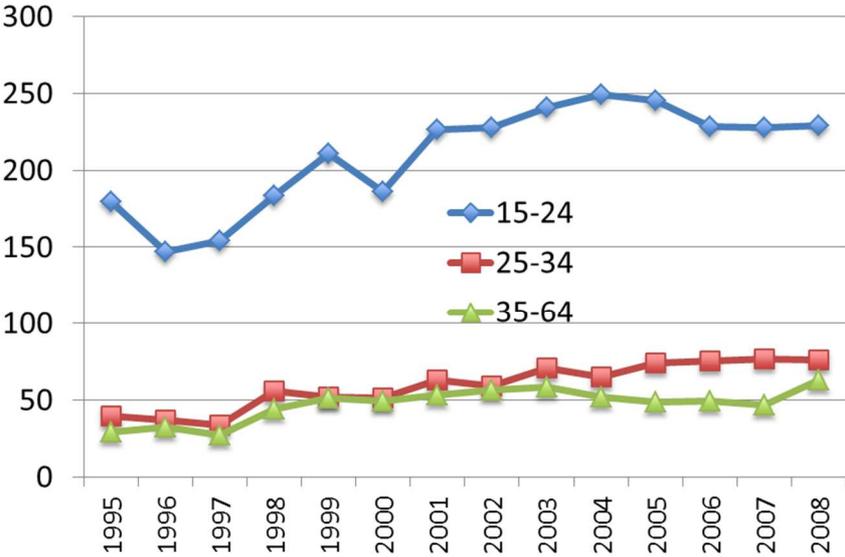
Figure 9. Unemployment rate and real GDP index in Malaysia, 1990-2011



Source: World Bank, World Development Indicators

Youth make up the largest share of unemployed workers in Malaysia. Unlike in Indonesia, however, their share of total unemployment has changed little since the pre-Asian economic crisis era (see figure 10). This is likely due to the fact that labour laws in Malaysia do not place rigid restrictions on employers' power to dismiss workers.

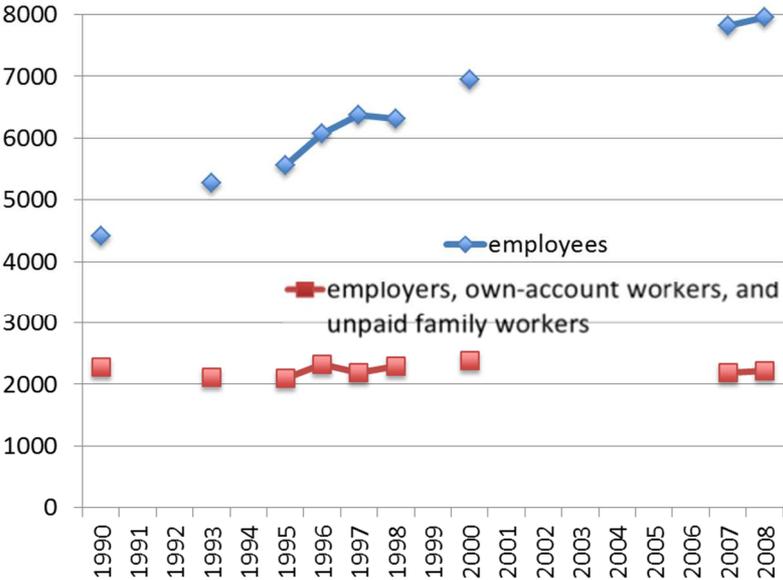
Figure 10. Number of unemployed in Malaysia by age, 1995-2008 (in thousands)



Source: ILO, LABORSTA

The share of the employees in the total labour force in Malaysia also considerably differs from that of Indonesia (figure 11). The share exceeded 70 per cent in the first half of the 1990s and reached almost 80 per cent by the end of the 2000s. Unlike other ASEAN countries, Malaysia no longer has a large informal economy. Figure 11 also indicates that, in stark contrast to Indonesia, the number of jobs in private companies started increasing shortly after the Malaysian economy came out of the recession.

**Figure 11. Number of employees and other types of workers in Malaysia, 1990-2008 (in thousands)**



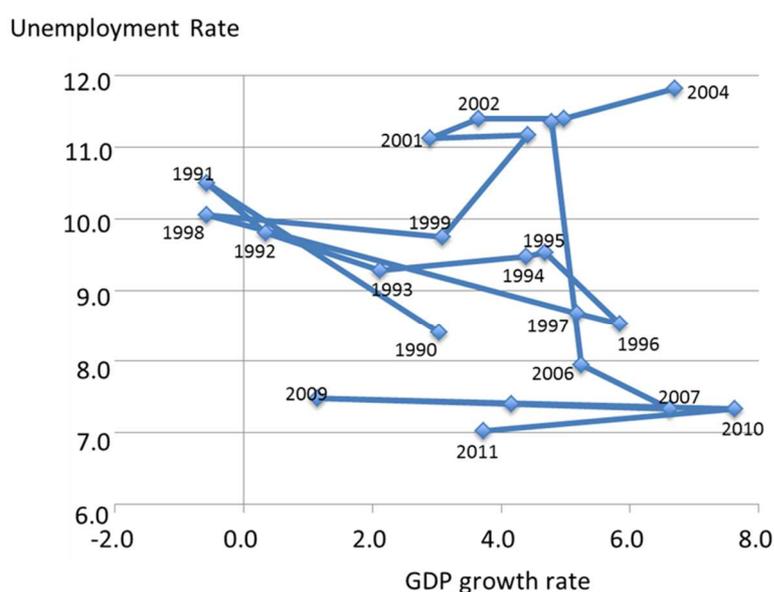
Source: ILO, LABORSTA

Restrictions on employers' ability to retrench workers enhance job security of existing workers, but discourage employers from hiring new workers, especially when employers are not confident about the future prospects of their businesses. Contrasting trends in the number of the unemployed youth in Indonesia and Malaysia imply that excessive reliance on restricting dismissals as a tool to enhance job security may disproportionately burden the youth and hinder structural transformations of the economy. We are not arguing that the general level of job security in ASEAN countries should be lowered. Workers need and deserve job security. Instead, we propose that policy tools used to enhance job security should be more diversified so that youth would not be disproportionately burdened and structural adjustment would not be hampered.

### (3) The Philippines

Compared with other ASEAN countries in terms of GDP growth rates, the adverse impact of the Asian economic crisis on the Philippine economy was relatively small. However, the unemployment rate in the Philippines increased after the crisis from 8.5 per cent in 1996 to 11.8 per cent in 2004 despite recovery of the GDP growth rate. The unemployment rate in the Philippines steadily fell after it peaked in 2004, even though the yearly average growth rate of GDP did not change much (4.5 per cent for 2000-2004 and 4.8 per cent for 2005-2011).

Figure 12. Unemployment rate and GDP growth in the Philippines, 1990-2011



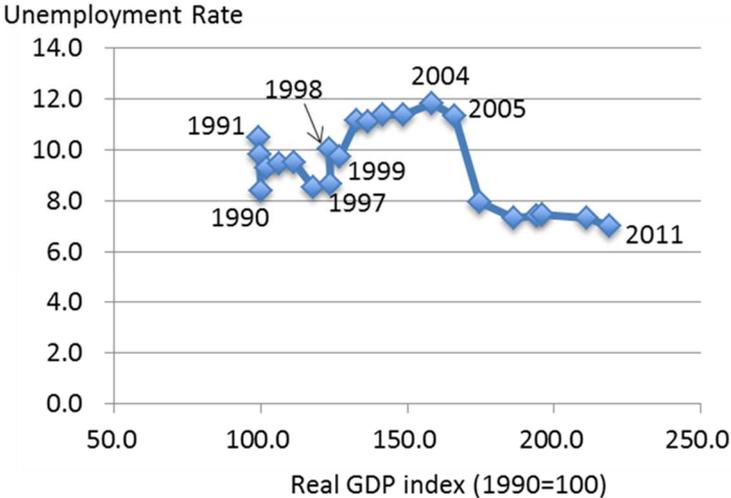
Source: World Bank, World Development Indicators

Correlations between real GDP and unemployment rate in the Philippines are somewhat similar to those of Indonesia: positive ( $r=0.73$   $n=15$ ) for the period of 1990 to 2004 and negative ( $r=-0.83$   $n=8$ ) for the period of 2004-2011. It should be noted that the abrupt drop in the unemployment rate in 2006 is largely attributable to the change of the definition of the unemployed. Until 2005, the "availability" criteria had not been included in the official definition of the unemployed in the Philippines. The inclusion of the "availability" criteria in 2005 resulted in a sizable drop in the number of the unemployed.<sup>16</sup> However, even if the

<sup>16</sup> The official announcement by the Interagency Committee on Labour, Income and Productivity Statistics in the Philippines is posted in the National Statistical Coordination Board's website: [http://www.nscb.gov.ph/announce/2005/30June05\\_IACLIPS\\_Position.asp](http://www.nscb.gov.ph/announce/2005/30June05_IACLIPS_Position.asp). Also see the article written by Melissa C. Pascua, Statistical Coordination Officer at the Social Statistics Office at [http://www.nscb.gov.ph/headlines/StatsSpeak/041105\\_rav\\_mcp\\_unemployment.asp](http://www.nscb.gov.ph/headlines/StatsSpeak/041105_rav_mcp_unemployment.asp).

definition of the unemployed had not been changed, the unemployment rate would have declined, though much slower than the official figures suggest.

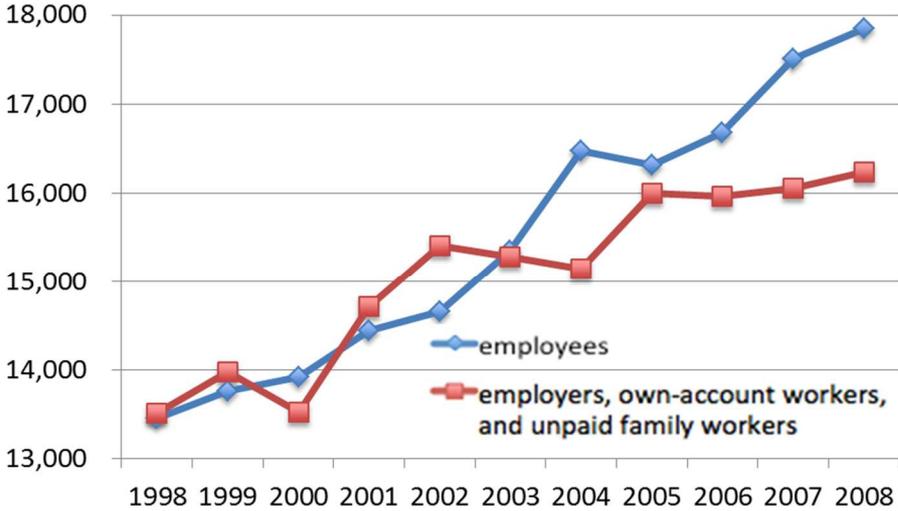
**Figure 13. Unemployment rate and real GDP index in the Philippines, 1990-2011**



Source: World Bank, World Development Indicators

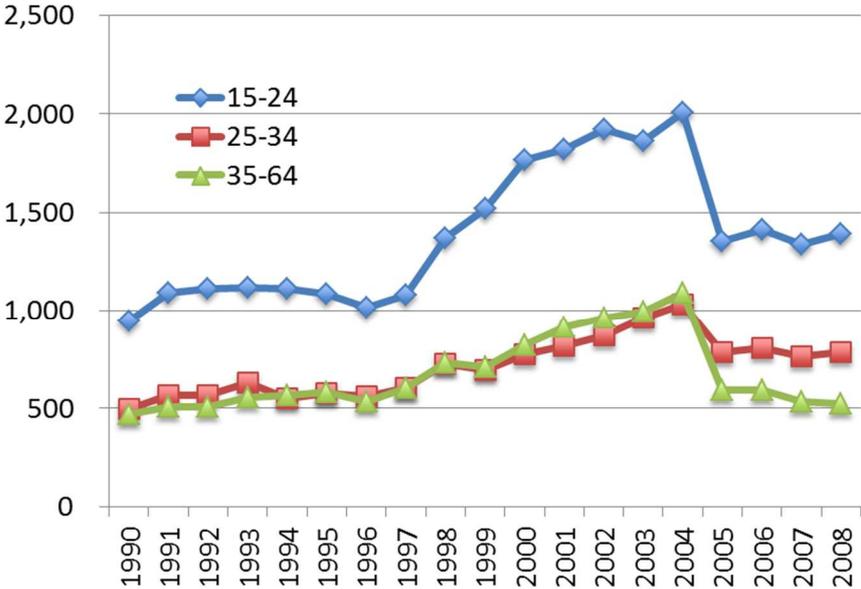
As figure 14 shows, unlike in Indonesia, the number of the employees has been increasing since 1998. The share of the employees in the total Philippine labour force is much higher than that in Indonesia, but still much lower than that in Malaysia. Figure 15 depicts that the share of youth among the unemployed is smaller than in Indonesia and the number of unemployed youth changed more or less in the same way with other age groups. This pattern is likely the result of Philippine labour laws, which do not place rigid restrictions on lay-offs as is the case in Indonesia.

**Figure 14. Number of employees and other types of workers in the Philippines, 1998-2008 (in thousands)**



Source: ILO, LABORSTA

**Figure 15. Number of unemployed in the Philippines by age, 1990-2008 (in thousands)**



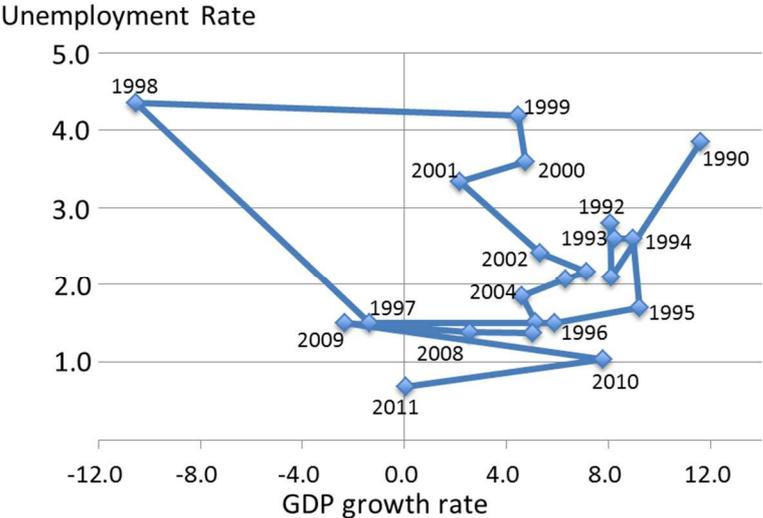
Source: ILO, LABORSTA

**(4) Thailand**

The Thai economy grew very rapidly in the early 1990s and the unemployment rate declined from 3.8 per cent in 1990 to 1.5 per cent in 1995. The Thai economy, however, slowed down in 1996 and tumbled in 1997 in the midst of the Asian economic crisis. The GDP growth rate

declined to an unprecedented -10.5 per cent in 1998. The unemployment rate soared to 4.4 per cent, but has declined steadily since then.

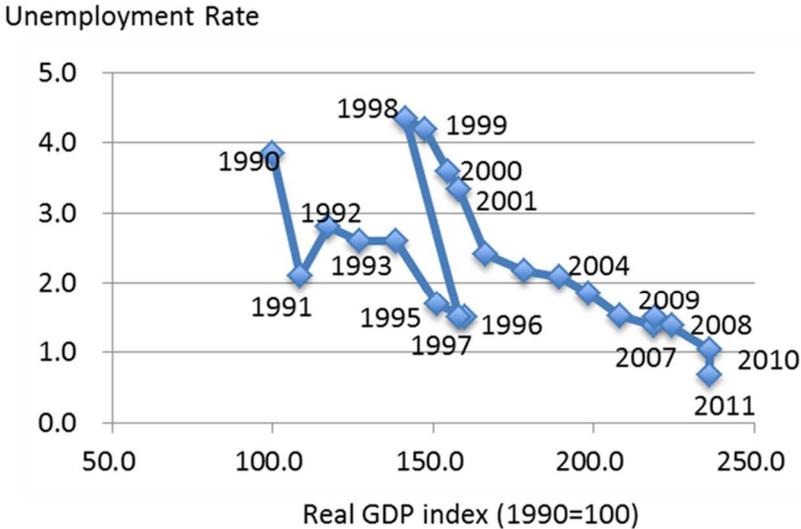
**Figure 16. Unemployment rate and GDP growth in Thailand, 1990-2011**



Source: World Bank, World Development Indicators

Thailand introduced unemployment insurance in 2004, but, as shown in figure 17, did not experience higher unemployment as a result. Although Thai GDP growth declined to -2.3 per cent in 2009 because of the 2008 international financial shock, its unemployment rate increased only slightly from 1.4 per cent in 2008 to 1.5 per cent in 2009, and dropped quickly to one per cent in 2010. Thailand's experience with unemployment insurance shows that, if properly designed and managed, unemployment insurance does not put upward pressure on unemployment rates, even when the economy is affected by a global recession.

Figure 17. Unemployment rate and real GDP index in Thailand, 1990-2011

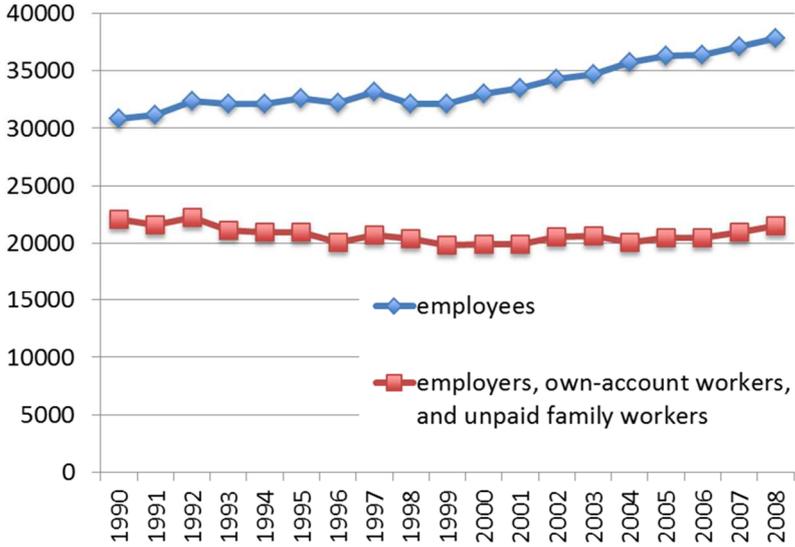


Source: World Bank, World Development Indicators

In Thailand, unlike in Indonesia, Malaysia, and the Philippines, the unemployment rate and real GDP are negatively correlated for all periods between 1990 and 2008 ( $r=-0.694$   $n=22$  for 1990-2008,  $r=-0.828$   $n=8$  for 1990-1997, and  $r=-0.959$   $n=14$  for 1998-2008).

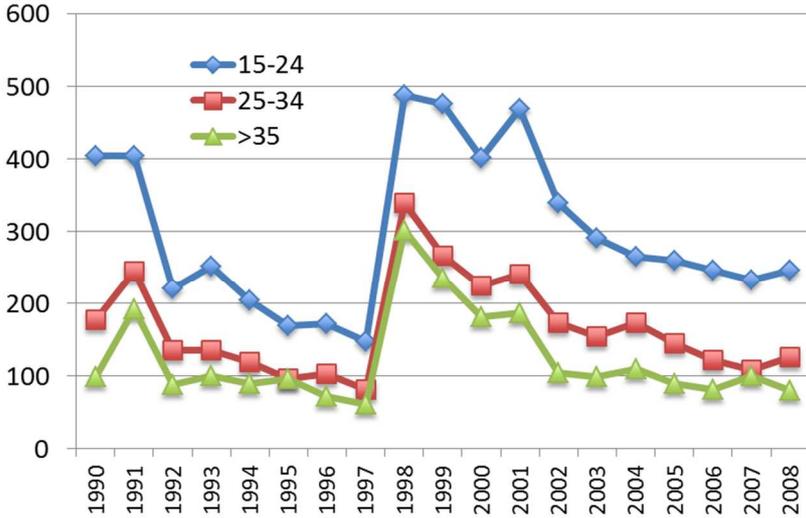
As figure 18 shows, the share of employees in the total labour force in Thailand is much higher than in Indonesia and the Philippines. The number of employees has been steadily increasing, while the number of own-account workers and unpaid family workers has stagnated. Like other countries in the region, the youth make up the largest portion of unemployed in Thailand (figure 19). Unlike in Indonesia, however, the youth share has not increased in the past two decades. Labour laws in Thailand put few restrictions on dismissal.

Figure 18. Number of employees and other types of workers in Thailand, 1990-2008 (in thousands)



Source: ILO, LABORSTA

Figure 19. Number of unemployed in Thailand by age, 1990-2008 (in thousands)



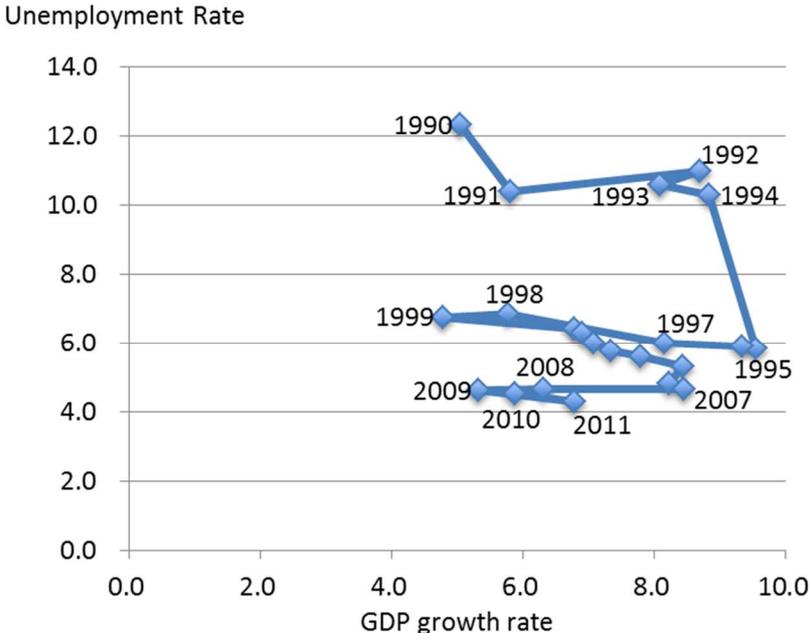
Source: ILO, LABORSTA

(5) Viet Nam

High unemployment rates in Viet Nam during the early 1990s are mainly attributed to the transition from a state-owned enterprise-dominated economy to a private enterprise-led economy. During this transition, the number of workers in state-owned enterprises decreased dramatically. Figure 20 shows that the unemployment rate declined significantly,

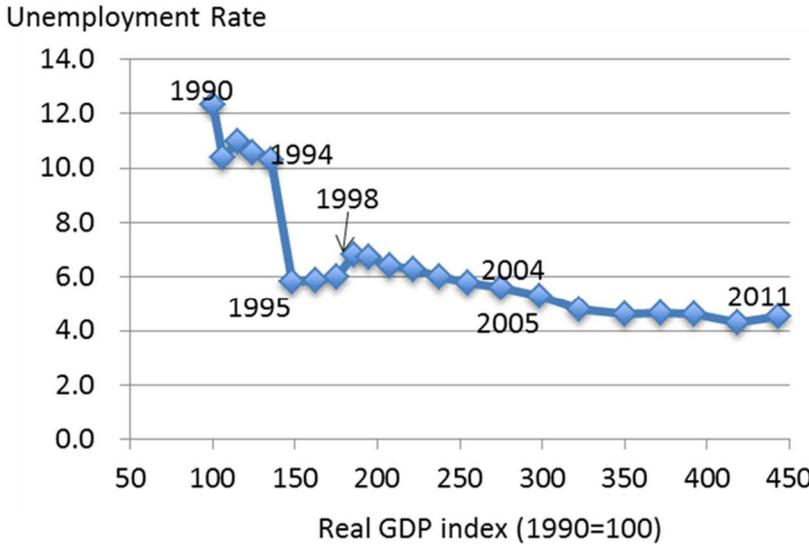
as the private sector grew and increasingly absorbed workers.. Viet Nam's unemployment rate is negatively correlated with the real GDP index over the entire period under investigation ( $r=-0.801$   $n=22$  for 1990-2011,  $r=-0.911$   $n=8$  for 1990-1997, and  $r=-0.966$   $n=14$  for 1998-2011).

**Figure 20. Unemployment rate and GDP growth in Vietnam, 1990-2011**



Source: World Bank, World Development Indicators

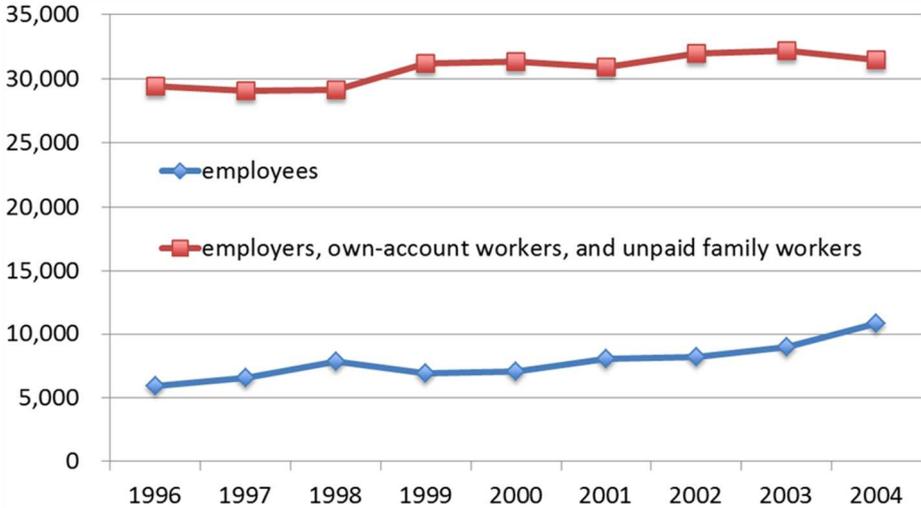
**Figure 21. Unemployment rate and real GDP index in Vietnam, 1990-2011**



Source: World Bank, World Development Indicators

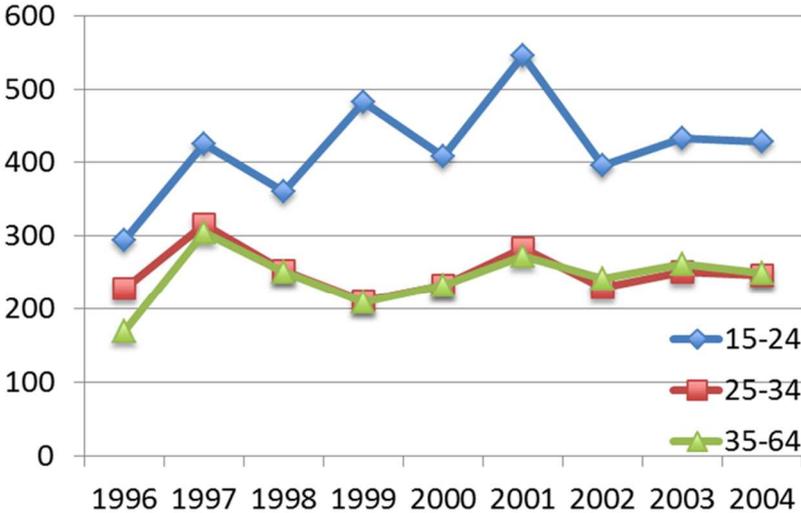
The composition of unemployed workers in Viet Nam is shown in figures 22 and 23.

**Figure 22. Number of employees and other types of workers in Vietnam, 1996-2004 (in thousands)**



Source: ILO, LABORSTA

**Figure 23. Number of unemployed in Vietnam by age, 1996-2004 (in thousands)**



Source: ILO, LABORSTA

**2-3. Unemployment and the risk to increase the rows of informal economy workers**

One of the main reasons why unemployment rates do not always have negative correlations with GDP and GDP growth rates in ASEAN countries is that many people in these countries cannot "afford" to be unemployed for prolonged periods. For those who live close to the poverty line with little savings, it is often unaffordable to remain unemployed for several months, not to mention several years.

In the absence of unemployment benefits support, if employment is not available in the formal economy, they will inevitably search for a job in the informal economy where jobs are less secure, with low and unstable pay, and unprotected by labour laws including social security laws. For instance, unemployed may engage in small-scale trade on the streets as own-account workers, or help some of their family members occasionally without wage. Experience shows that once a worker is part of the informal economy, chances to return to formal employment are limited. Therefore, by prolonging the period in which the unemployed look for a new job in the formal economy, unemployment insurance benefits can prevent reversing country's progress towards decent work and poverty alleviation.

The ILO's Global Employment Trends Report (2013) defines "vulnerable employment" as the sum of own-account workers and unpaid family workers and estimates the number of workers in vulnerable employment in South East Asia and the Pacific countries to be 185 million in 2012, or 61.4 per cent of the region's employed. The number of those who are in vulnerable employment is more than ten times as many as that of those counted as unemployed in the region (unemployment rate projected at 4.4 per cent in 2012). Figure 22 shows that about half of those who were unemployed in the Philippines at the time of Labour Force Survey in 2008-2010 looked for work for less than four weeks. Only about five per cent of unemployed workers looked for work for 20 weeks or more. The growth rate of the Philippine economy declined in 2009 because of the international financial crisis, but recovered in 2010 (figure 1). It should be noted that the number of unemployed persons looking for work less than ten weeks increased in 2009, while those who looked for work more than ten weeks decreased. Economic recession triggers lay-offs, which increase short-term unemployment. On the other hand, economic recession makes long-term unemployment difficult by reducing the incomes of other family members on which unemployed persons rely and/or increasing the number of unemployed persons within a family.

Table 1 compares the underemployment<sup>17</sup> rate and unemployment rate in the five poorest regions in the Philippines with those of the three least poor regions. Unemployment rates in all the five poorest regions are lower than the national average, while unemployment rates in all the three least poor regions are higher than the national average. On the contrary,

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<sup>17</sup> The ILO defines Underemployment as those who work less than 35 hours a week (ILO, 2011: Global Employment Trends 2010). In the Philippines Labor Force Survey (LFS), the underemployed are those employed persons who expressed the desire to have additional hours of work in their present job, or to have additional job, or a new job with longer working hours (source: *Department of Labor and Employment, the Philippines. 2011. The Philippines labor & employment plan 2011- 2016: Inclusive growth through decent and productive work (Manila, Department of Labor and Employment)*).

underemployment rates in all the five poorest regions, except for the Autonomous Region in Muslim Mindanao (ARMM), are higher than the national average, while the rates in the three least poor regions are lower (Department of Labor and Employment, the Philippines, 2011, p. 9).

**Table 1. Poverty, underemployment, and unemployment in selected regions in the Philippines, 2009 (%)**

Region	Poverty incidence	Underemployment rate	Unemployment rate
<b>Philippines</b>	<b>26.5</b>	<b>19.1</b>	<b>7.5</b>
<b>Poorest regions</b>			
Caraga	47.8	27.0	5.8
ARMM	45.9	12.8	2.3
Region V	45.1	36.2	5.8
Region IX	43.1	23.6	3.6
Region VIII	41.4	26.4	5.4
<b>Least poor regions</b>			
Metro Manila	4.0	12.5	12.8
Region IV-A	13.9	16.5	10.4
Region III	15.3	7.8	9.2

Source: Department of Labor and Employment, the Philippines (2001), The Philippines Labor & Employment Plan 2011-2016: Inclusive Growth Through Decent and Productive Work, Manila: Department of Labor and Employment, p.9, Table 10.

The statistical data reveal that unemployed persons, in general, are not the most severely distressed societal group in ASEAN countries. On the average, vulnerable and underemployed workers who far outnumber the unemployed are much poorer, less educated, and socially marginalized. Therefore, it is no wonder that the governments in ASEAN countries spend much larger amounts of budget, though not always in effective ways, on projects targeted at vulnerable and underemployed workers (including rural farmers) than on projects targeted at the unemployed. This report, however, argues that ASEAN countries should extend and improve social protection for the unemployed of the formal economy, even though this group is comparatively smaller and better off than vulnerable and underemployed workers. Without healthy and expanding formal sectors, it is difficult to alleviate the plight of vulnerable and underemployed workers. At the same time, it is difficult to keep the formal economy healthy and expanding without providing social protection for all workers including those in vulnerable employment.

Policy-makers in ASEAN countries face a dilemma. On the one hand governments need to provide some level of protection for the unemployed of the formal economy. On the other hand governments cannot devote large budget shares for this purpose because they also

need to devote resources to relatively numerous vulnerable and underemployed workers. The conventional response to this dilemma has been to impose compulsory severance pay. All the ASEAN countries (except for Singapore and Brunei) have statutory severance pay programmes. If the compulsory severance pay system works as written in the law, it can provide a certain level of protection for the unemployed without putting financial burden on the government. In reality, however, compliance with severance pay regulations is low in many of the ASEAN countries. It should also be noted that severance pay does not comply with the Social Security (minimum standards) Convention, 1952 (No.102) and Unemployment Protection and Employment Promotion Convention, 1988 (No. 168) under which unemployment protection should correspond to periodical benefits, rather than one-off payment, and pursue a risk pooling function. The next section provides an overview of compulsory severance pay programmes in five ASEAN countries and discusses the impacts and limitations of these programmes.

### 3. Compulsory severance pay programmes in ASEAN countries

#### 3-1. Common basic features

Although the details differ, compulsory severance pay programmes in ASEAN countries possess some common basic features. Employers are required to provide severance pay when they lay off workers. The amount of payment differs depending on laid-off workers' wage rates, length of service, and reasons for lay-off. Workers who worked for longer periods with higher wages are entitled to more severance pay (see table 2 for details). In ASEAN countries, the burden of financing severance pay is put entirely on the shoulders of employers. However, statutory severance pay programmes in ASEAN countries do not require employers to pre-fund the severance pay.<sup>18</sup> Therefore, it often happens that employers who lay off workers because of declining sales and profits fail to provide the full amount of statutory severance pay to workers.

Most ASEAN countries do not have an efficient system to monitor the compliance of severance pay regulations. Unless disgruntled workers file a suit, noncompliance by

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<sup>18</sup> The only exception is Viet Nam's retrenchment payouts. The 3rd paragraph of Article 17 of Labour Code writes, "business enterprises must establish a reserve for retrenchment payouts in accordance with the provisions of the Government in order to ensure that employees retrenched from their enterprises are paid in a timely manner." Retrenchment payouts, however, are given only to workers laid off "as a result of organizational restructuring or technological changes" (Article 17 of Labour Code). Workers who are laid-off for other reasons such as declining sales and profits are not entitled to these retrenchment payouts but are entitled to severance pay (Article 42 of Labour Code). Viet Nam's Labour Code does not require employers to establish a reserve for severance pay.

employers often goes unnoticed by government agencies. Table 2 suggests that among the five ASEAN countries, Indonesia has the most generous and Malaysia the least generous severance pay programme. While the severance pay programme is good for Indonesian workers on paper, in reality the compliance rate among small- and medium-sized companies in Indonesia is much lower than that of their counterparts in Malaysia.<sup>19</sup>

As shown in table 2,<sup>20</sup> except for Malaysia, workers who are laid-off because of the installation of labour-saving devices are entitled to a larger amount of severance pay than those who are laid-off because of retrenchment to prevent losses. It is often argued that lay-off caused by the installation of labour-saving devices is avoidable, while lay-off caused by the decline of sales and profits is unavoidable. Under this logic, employers who dismiss workers for avoidable reasons should be penalized more heavily than those whose dismissals are due to unavoidable reasons. Such arguments might have some validity if most companies are protected from competition from imported products through high tariff barriers and, at the same time, very few companies export their products abroad. Under these circumstances, employers may be discouraged from using labour-saving technologies. However, now that most ASEAN countries have opened their economies by reducing tariff barriers and exporting their products abroad in large quantities, employers have to face severe international competition. Discouraging firms from adopting labour-saving devices might prevent some job losses in the short-run, but this strategy may result in larger job losses in the long-run because of deteriorating international competitiveness.

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<sup>19</sup> For empirical research findings on widespread noncompliance of severance pay regulations in Indonesia, see Brusentsev, Newhouse, and Vroman (2012).

<sup>20</sup> Additional information on severance pay provisions in ASEAN countries is provided in Annex I of the report.

**Table 2. Mandatory severance/retrenchment pay programmes in selected ASEAN countries**

Country	Year in which severance pay was made mandatory	Minimum tenure for eligibility (months)	Cause of layoff	Amount of severance/redundancy pay for laid-off workers in the current regulations (in months' wage)				
				Length of service				
				9 months	1 year	5 years	10 years	20 years
Indonesia*	1948	-	Retrenchment to prevent losses	1 (1+0)	2 (2+0)	8 (6+2)	13 (9+4)	16 (9+7)
			Installation of labor-saving devices	2 (2+0)	4 (4+0)	14 (12+2)	22 (18+4)	25 (18+7)
Malaysia**	1955	12	Retrenchment to prevent losses	0	0.3	3.3	6.7	13.3
			Installation of labor-saving devices	0	0.3	3.3	6.7	13.3
Philippines	1974	6	Retrenchment to prevent losses	1	1	2.5	5	10
			Installation of labor-saving devices	1	1	5	10	20
Thailand	1956	4	Retrenchment to prevent losses	1	3	6	10	10
			Installation of labor-saving devices	1	3	6	15	20
Vietnam	1994	6	Retrenchment to prevent losses	0	0.5	2.5	5	10
			Installation of labor-saving devices	2	2	5	10	20

Source: Indonesia: Manpower Act, Article 156, 163-165

Malaysia: Employment (Termination and Lay-Off Benefits) Regulations, Article 6

Philippines: Labor Code, Article 283

Thailand: Labor Protection Act, Article 118, 121, 122

Vietnam: Labor Code, Article 17, 42; Government Decree No: 39/2009/TT-BLDTBXH, Article 1

\* In Indonesia, laid-off workers who had been employed for three years or more are entitled to receive "long service (uang penghargaan masakerja) in addition to severance pay (uang pesanon). The first number in the parenthesis indicates the amount of severance pay, and the second number the amount of long service pay.

\*\* Malaysia's employment regulations, unlike their counterparts in other ASEAN countries, stipulate the amount of severance pay in multiples of daily wage, not in multiples of monthly wage. To make comparison with other countries easier, days' wages are converted to months' wages in Table 2. Ten days are converted to 0.3 months, 100 days to 3.3 months, 200 days to 6.7 months, and 400 days to 13.3 months

Why do many ASEAN countries still maintain a difference in the amount of severance pay depending on the reasons for lay-off? It might simply be because they cannot force employers of deficit-ridden companies to pay a larger amount of severance pay. It is a well-known fact that in several ASEAN countries, companies going through bankruptcies often fail to provide the full amount of mandated severance pay to dismissed workers. The difference in the legally required amount of severance pay might be better interpreted as a reflection of their ability to pay rather than as a kind of penalty for employers who dismiss their workers for avoidable reasons. It is, however, unfair for workers laid-off by deficit-ridden companies to be given a smaller amount of severance pay, as there is no reason to assume that they need a smaller amount than those who are laid-off by profit-making companies that install labour-saving devices.

Compulsory severance pay programmes do offer a certain level of job protection to workers, but these programmes, in addition to its lack of compliance with ILO's standards on social security, also have serious weaknesses. First, workers are paid in the form of a lump sum, which tends to vanish shortly after termination of employment and therefore does not provide sufficient protection to laid-off workers. Second, severance pay does not provide

assistance through accessing job placement services or re-training programmes to those who have lost their job. Finally and most importantly, without efficient and effective monitoring and enforcement mechanisms, they often fail to provide relief to laid-off workers. Despite such weakness, compulsory severance pay programmes have been widely adopted in ASEAN countries, mainly because it is a convenient and relatively inexpensive tool for political compromise.

### 3-2. Compulsory severance pay and political compromise

In order to illustrate the political attractiveness of compulsory severance pay programmes, we examine Indonesia's experience in some details. The amount of statutory severance pay as well as "long service pay" (*uang penghargaan masakerja*)<sup>21</sup> increased drastically after the downfall of the authoritarian Suharto regime in 1998. Trade unions, greatly empowered in the process of democratization, put pressure on the politically instable Megawati administration by staging large-scale demonstrations and demanding pro-labour reforms. The employers' organization, APINDO (Asosiasi Pengusaha Indonesia), fiercely lobbied against such reforms. President Megawati appointed a prominent trade union leader, Jacob Nuwa Wea, as Minister of Manpower and Transmigration and urged him to hold a tripartite forum with trade unions and employers' organizations (Justiniarto, 2011, p. 142; Manning, 2008, p. 6).

Severance pay and long service pay were increased as a result of political compromise. As shown in figure 7 in the previous section, the number of employees kept declining after the economic crisis in 1997-1998. Therefore, in the eyes of many workers who worried about the risk of lay-off, the increase in severance pay appeared as an important victory. President Megawati was also happy with this compromise because it would pacify labour groups to some extent without putting any additional financial burden on the Government's budget. As for the employers, an increase in severance pay looked like a minimal burden compared with other reforms, such as an increase in the minimum wage, strengthening of bargaining power of trade unions, and the introduction of new social security programmes that require employers' contributions. After a series of negotiations, the employers' organizations finally made a compromise by accepting an increase in severance pay in exchange for the postponement of other pro-labour reforms demanded by trade union leaders (Justiniarto, 2011, ch. 7).

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<sup>21</sup> Ministerial Decree No.03/1996 stipulated that laid-off workers who had been employed for five years or longer are entitled not only to severance pay (*uang pesanon*) but also long service pay (*uang penghargaan masakerja*). The minimum tenure for eligibility was lowered to three years, and the amount of long service pay was increased substantially by Ministerial Decree No.150/2000 (Justiniarto, 2011, p. 172).

Mandatory severance pay programmes are politically attractive for financially stretched governments under pressure from interest groups such as trade unions and employers' organizations. This is because the entire financial burden is borne by a relatively small number of employers who have no choice but to lay off their workers. Unlike unemployment insurance, which requires all employers, workers, and, in many cases, the government, make contributions every month to a centrally controlled fund, mandatory severance pay programmes do not impose any additional spending on the majority of the population, at least in the short run.

The number of jobs in the Indonesia's formal economy declined by more than 20 per cent in the six years following the economic crisis in 1997. After hitting bottom in 2003, jobs in the formal sector increased over the latter half of the 2000s (see figure 7). The revision of the Manpower Act in 2003, which resulted in an increase in mandatory severance pay, was made when many employers had already laid off most of their redundant workers. Therefore, the revision of mandatory severance pay provisions in 2003 did not place much additional burden on employers in Indonesia in the short run. However, many employers worried that the severance pay provisions might seriously jeopardize their business if the Indonesian economy was hit by another economic crisis. This concern resulted in the proposal of labour law reform after Susilo Bambang Yudhoyono, who was perceived as more pro-business than his predecessor, replaced Megawati as president.

In early 2006, responding to a strong request from Indonesian Employers Association (APINDO), the Yudhoyono administration showed willingness to reform labour laws and reduce the amount of compulsory severance pay (Palmer, 2009, p. 12; "Tussle ahead over labor law," *Jakarta Post*, March 29, 2006). Once the reform plan was revealed to the public, however, trade unions started staging large-scale demonstrations in many cities, rejecting the proposed labour law reform plan (Franken, 2011; "Workers walk to reject labor law change" *Jakarta Post*, April 7, 2006). Two days after the huge rallies and marches on major streets in Jakarta, President Yudhoyono met with workers' leaders and softened his stance on labour law reform. Though tripartite discussions were held several times, labour regulations were kept intact (Palmer, 2008, p. 12; "Indonesia leader says can debate labour law change," *Reuters*, April 7, 2006).

President Yudhoyono was re-elected in 2009 with a landslide victory. With a stronger political mandate, employers' representatives expected him to implement bolder reforms. Economic slowdown caused by the worldwide recession intensified employers' anxiety about severance pay. As a result, the Indonesian Employers Association made a renewed attempt to reform labour laws in 2010. In the process of tripartite negotiations, trade union leaders admitted that the current compulsory severance pay programmes had many flaws, but

insisted that they could not agree with reductions in the amount of severance pay unless other measures to alleviate the plight of unemployed workers, such as unemployment insurance, are introduced. However, the Indonesian Employers Association was hesitant to agree to the introduction of unemployment insurance and the negotiations ended in a stalemate (Franken, 2011; Palmer, 2008, p. 12).

**3-3. Low compliance of severance pay**

As shown in table 3, only one-third of the eligible laid-off workers received severance pay in Indonesia.<sup>22</sup> Noncompliance with severance pay regulations is more rampant in small- and medium-sized firms than in large-sized firms. It should also be noted that eligible young workers and female workers are less likely to receive severance pay.

**Table 3. Severance pay regulation compliance rates in Indonesia, 2008**

	<b>Employees eligible for severance pay as a proportion of all job separations</b>	<b>Employees who received severance pay as a proportion of all eligible</b>	<b>Employees who received severance pay as a proportion of all separations</b>
<b>Age</b>			
15-18 years	16.1%	12.9%	2.1%
19-24 years	16.2%	13.4%	2.2%
25-34 years	17.3%	39.5%	6.8%
35-49 years	26.1%	56.6%	14.8%
50-64 years	20.8%	36.6%	7.6%
65 years and older	29.7%	66.4%	19.7%
All ages	18.4%	33.4%	6.1%
<b>Gender</b>			
Female	14.9%	26.8%	4.0%
Male	21.3%	37.2%	7.9%
<b>Firm size</b>			
1-4 employees	10.1%	18.8%	1.9%
5-19 employees	14.0%	26.1%	3.7%
20-99 employees	21.3%	37.6%	8.0%
100+ employees	25.4%	37.5%	9.5%

Source: Brusentsev, Newhouse, and Vroman (2012)

<sup>22</sup> Widespread noncompliance was also reported in World Bank Office Jakarta (2006, p.5) Based on their field research in Serang District, they wrote; "business owners and trade confederations confirmed that many enterprises in Serang District rarely fulfill legal severance obligations. Small and medium businesses as well as large labour-intensive firms stated that they negotiated lower rates with workers or simply paid less."

Noncompliance was and is still a problem in Thailand as well (ILO, 2002, p.25). Article 119 of Thailand's Labour Protection Act, B.E. 2541 (1998) (amended in 2008), exempts employers from paying severance if the dismissal was the result of the employee's misconduct.<sup>23</sup> One of the most commonly used tactics for employers to dismiss workers without paying severance is to claim that the workers engaged in serious misconduct. If workers find such a claim untrue or unfair, they can lodge a complaint with the Labour Court or the Department of Labour Protection and Welfare. Since filing a complaint through formal channels is time-consuming, many workers simply leave without receiving severance pay or informally negotiate with their employer for less severance pay than is stipulated by law (Asami, 1997, pp. 30-31).

**Table 4. Number of cases brought to the labor court in Thailand, 1981-1994**

Year	1981	1982	1983	1984	1985	1986	1987
(1) Total number of cases accepted	4 131	3 598	3 761	5 247	7 583	7 744	6 293
(2) Number of cases regarding severance pay	3 010	2 222	1 871	2 765	3 971	4 032	2 979
Percentage share of (2) in (1)	72.90%	61.80%	49.70%	52.70%	52.40%	52.10%	47.30%
Year	1988	1989	1990	1991	1992	1993	1994
(1) Total number of cases accepted	6 774	7 421	7 768	9 173	9 329	11 384	9 833
(2) Number of cases regarding severance pay	2 843	2 754	2 445	2 332	2 681	3 890	3 242
Percentage share of (2) in (1)	42.00%	37.10%	31.50%	25.40%	28.70%	34.20%	33.00%

Source: Central Labor Court, Thailand

As shown in table 4, lawsuits regarding severance pay occupy a considerable portion of the cases brought to Thailand's Labour Court, which was set up in 1981. When a large number of firms went bankrupt in 1997 and 1998 as a result of the Asian economic crisis, the Thai Government's inaction to enforce the severance pay regulation was severely criticized. Faced with growing criticism, the Thai government started providing meager financial assistance to workers dismissed without severance pay through the Employee Welfare Fund, which was newly set up in 1998. A new regulation stipulated that the Employee Welfare Fund would provide a payment equivalent to 30 times the daily minimum wage to dismissed workers whose employers failed to fulfill their legal obligation to pay severance.<sup>24</sup>

<sup>23</sup> Article 119 of Labour Protection Act, B.E. 2541 (1998), lists up six cases of "serious misconduct" that exempt employers from paying severance, such as "performing his/her duty dishonestly," "willfully causing damage to the employer," and "committing negligent acts causing serious damage to the employer." As no concrete criteria are defined in the Act, it is not clear what actions should be considered "dishonest," "willfully," or "negligent", and how "serious" the damage done to the employer is serious enough to exempt him/her from paying severance.

<sup>24</sup> Rabiab Khana-kammakarn Kongthun Shongkhro Lukchang Waduay Karnchai Ngern Songkhro Atra-ngern thi Cha Chai lae Raya Wela Karnchai Pho. So. 2542 (Regulation of the Employment Welfare Fund Committee regarding the Payment of Assistance Money, Rates of the Money Payable, and the Payment Periods, B.E. 2542 (2000)) published in the Thai government's gazette on January 4, 2000 (Vol. 117, pp.32-35).

It should be noted that the amount of financial assistance that dismissed workers receive from the Employee Welfare Fund is much smaller than compulsory severance pay, which is equivalent to several months' salary depending on the length of service (see table 2). The gap between payments from the Employee Welfare Fund and compulsory severance pay is very large, especially for long-time workers and those who earn salaries well above the minimum wage. In 2003, in order to alleviate the dissatisfaction of long-time workers, the Thai government doubled the amount of assistance for workers who worked for more than six years and were dismissed without severance pay.<sup>25</sup> The amount of financial assistance was further increased in 2009. Workers dismissed without severance pay after working for three to ten years receive an amount equal to 60 times the daily minimum wage; workers dismissed without severance pay after working more than ten years receive an amount equal to 90 times the daily minimum wage; and workers dismissed without severance pay after working for more than 120 days but not more than three years receive an amount equal to 30 times the daily minimum wage, as before.<sup>26</sup> Even after these two revisions, however, the amount of financial assistance from the Employee Welfare Fund is still considerably smaller than what is provided by compulsory severance pay. It should also be noted that eligible workers only receive this assistance if they file a formal complaint at the Department of Labour Protection and Welfare with a set of required documents. In practice, many eligible workers do not get this financial assistance for various reasons, such as time constraints, insufficient information, and difficulties in preparing all the required documents (ILO, 2002, p.17).

Employers' failure to fulfill their legal obligation to pay severance is not the workers' fault. It is unfair for dismissed workers to receive a payment smaller than the amount of severance pay mandated by law. However, if the Government were to provide the full amount to all workers dismissed without severance pay, the burden on the Government's budget would be too great. To solve this dilemma, Thailand introduced unemployment insurance in 2004.

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<sup>25</sup> Rabiab Khana-kammakarn Kongthun Shongkhro Lukchang Waduay Karnchai Ngern Songkhro Atra-ngern thi Cha Chai Iae Raya Wela Karnchai Pho. So. 2546 (Regulation of the Employment Welfare Fund Committee regarding the Payment of Assistance Money, Rates of the Money Payable, and the Payment Periods, B.E. 2546 (2003)) published in the Thai government's gazette on January 14, 2003 (Vol. 120, pp.37-41).

<sup>26</sup> Rabiab Khana-kammakarn Kongthun Shongkhro Lukchang Waduay Karnchai Ngern Songkhro Atra-ngern thi Cha Chai Iae Raya Wela Karnchai Pho. So. 2552 (Regulation of the Employment Welfare Fund Committee regarding the Payment of Assistance Money, Rates of the Money Payable, and the Payment Periods, B.E. 2552 (2009)) published in the Thai government's gazette on September 21, 2009 (Vol. 126, pp.1-2).

## 4. Feasibility of unemployment insurance in ASEAN countries

### 4-1. Overview of unemployment insurance in Thailand<sup>27</sup>

As shown in figure 24, Thailand's unemployment insurance generated large annual surpluses since its start in 2004. This is mainly because the duration and amount of unemployment insurance benefits are kept shorter and lower than those in developed economies. In all cases, the level of benefits should be kept in line with ILO social security standards.

In Thailand, involuntarily laid-off workers can receive 50 per cent of their pre-lay-off salary for six months after losing their jobs if they worked and contributed to the unemployment insurance scheme for at least six months prior to their job interruption. Those who resign voluntarily can receive 30 per cent of their salary for three months.

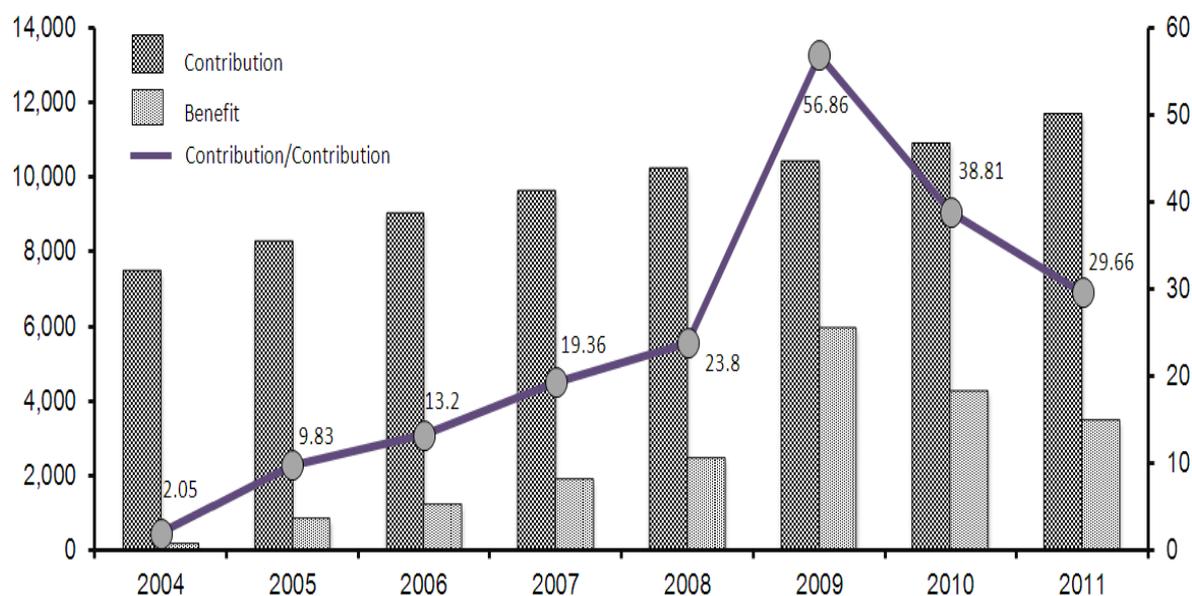
In addition, insured unemployed workers have access to re-employment services such as access to job vacancies and counseling, orientation for vocational training. Registration for claiming unemployment benefits and employment support are provided under a one-stop-shop service at the Employment Service Office. These employment support and skills development services are financed by a separate budget, distinct from the unemployment insurance fund.

Employers and employees are required to contribute 0.5 per cent of employees' salaries to the unemployment insurance fund, while the government contributes 0.25 per cent of the salaries. With this arrangement, it is very unlikely for Thailand's unemployment insurance scheme to run a deficit, unless a large portion of the fund is used for purposes other than unemployment insurance benefits for eligible unemployed workers.

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<sup>27</sup> For more detail on Thailand's unemployment insurance, please see Asami (2010), which is downloadable at <http://www.fair-labor.soc.hit-u.ac.jp/pdf/2010-Social-Resilience-Report-asami.pdf>, and Worawan (2006).

**Figure 24. Contribution-benefit ratio of the unemployment insurance scheme in Thailand, 2004-2010**



Source: Social Security Office, Thailand, *Annual Report 2011*, p.15.

**Table 5. Number of unemployment benefit recipients in Thailand, 2004-2011<sup>28</sup>**

Year	Insured workers	Unemployment benefit recipients	Recipients/insured workers	Laid off	Voluntary resignation	End of contract
2004	7 831 463	15 722	0.2%	5 432	8 102	2 188
2005	8 225 477	28 021	0.3%	9 074	14 821	4 126
2006	8 537 801	39 902	0.5%	14 767	22 427	2 708
2007	8 781 262	56 581	0.6%	20 470	33 573	2 538
2008	8 779 131	71 951	0.8%	21 962	45 545	4 480
2009	8 658 898	139 165	1.6%	60 767	73 783	4 615
2010	8 955 744	89 965	1.0%	19 522	66 279	4 134
2011	9 054 535	98 142	1.1%	24 036	69 029	5 077

Source: Social Security Office, Thailand, Annual Report, various issues.

Table 5 shows the number of unemployment benefit recipients in December of each year since the start of unemployment insurance scheme in Thailand. An increase in the number of the recipients in the first five years is mainly attributable to workers' growing familiarity with the unemployment insurance scheme. It is reported that in the first few years after implementation of unemployment insurance many qualified unemployed workers failed to

<sup>28</sup> Data compiled for ILO by Dr. Worawan Chandoewit, Thailand Development Research Institute, 2012.

receive unemployment benefits because they were not familiar with the procedures to apply for unemployment benefits (Chutima, 2008). The upsurge in 2009 was caused by the adverse effects of the global economic downturn. The annual increases in the number of unemployment benefit recipients stopped in 2010 partly because the Thai economy started to recover from the economic downturn and because most workers in the formal sector were already familiar with unemployment insurance regulations.<sup>29</sup>

Table 5 also shows that the number of unemployment benefit recipients has never exceeded two per cent of the total number of insured workers. As the contribution rate is set at 0.5 per cent for employees and employers and 0.25 per cent for the Government, the Social Security Office receives 1.25 per cent of each insured person's salary as their contribution every month. Assume that there is no difference between the average of laid-off workers' pre-dismissal salaries and that of those who are not laid-off, and also that all unemployed workers are involuntarily laid-off. The total amount of unemployment benefits paid by the Social Security Office would be  $0.5uw$ , where  $u$  represents the number of unemployment benefit recipients and  $w$  is the average of workers' salaries. The total contributions would be  $0.0125ew$ , where  $e$  represents the number of insured workers. The total amount of unemployment benefits,  $0.5uw$ , exceeds the total amount of contribution,  $0.0125ew$ , only when  $u/e$  is larger than 0.025 ( $=0.0125/0.5$ ), or in other words, only when the number of recipients exceeds 2.5 per cent of the total number of insured workers. In reality, the average wage of the laid-off workers tends to be lower than that of non-laid-off workers, because those who receive higher salaries, in general, tend to have better job security. It should also be noted that, as shown in table 5, the "voluntarily" unemployed workers far outnumber involuntary ones in Thailand. Therefore, the break-even point we calculated above is undoubtedly much lower than the real break-even point. In reality, the ratio of unemployment benefit recipients to insured persons in Thailand has been well below this "much-lower-than-real" break-even point. Therefore, it is not surprising that Thailand's unemployment insurance programmes has accumulated a large surplus since its launch.

#### 4-2. Overview of the unemployment insurance scheme in Viet Nam

The unemployment insurance fund in Viet Nam started collecting contributions in January 2009 and started providing unemployment benefits in January 2010. Viet Nam Social

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<sup>29</sup> Unemployment insurance was spotlighted when the Abhisit administration announced that the Social Security Office would temporarily extend the duration of unemployment benefits for involuntarily laid-off workers from six months to eight months as a part of the economic stimulus package to mitigate the adverse impact of the global economic slowdown in July 2009. The Social Security Office repeatedly broadcasted TV ads on this temporary extension.

Security (VSS), a government agency responsible for collecting contributions and disbursing unemployment benefits, collected VND 5.7 trillion (about US\$ 272 million) in contributions during in 2011, while it spent approximately VND 1.2 trillion on unemployment benefits in 2011 (Giang and Nguyen, 2012, p. 84). In July 2012, the unemployment insurance fund surplus was estimated at VND 16.3 trillion.<sup>30</sup>

The provisions for unemployment benefits in Viet Nam are more generous than those of Thailand. The amount of unemployment benefit is equivalent to 60 per cent of the insured's average monthly wage of six months prior to unemployment no matter whether unemployment is voluntary or involuntary (Article 82 of the Social Insurance Law, 2006). The duration of unemployment benefits is also longer than in Thailand. Those who have paid insurance premiums for 12 to 36 months can receive the unemployment benefit for three months. Those who have paid premiums for 36 to 72 months are eligible to receive the benefit for six months. Workers who have paid premiums for 72 to 144 months can receive the benefit for nine months. Finally, those who have paid premiums for at least 144 months can receive unemployment benefits for 12 months no matter whether the job separation was voluntarily or involuntarily (Article 82 of the Social Insurance Law, 2006). Unemployment benefits in Viet Nam also includes reimbursement of vocational training costs up to 6 months (for a maximum amount of VND 300,000 per month) and extension of the health insurance coverage for the period the insured unemployed is receiving unemployment benefits.

One of the reasons why the unemployment insurance scheme in Viet Nam manages to maintain a surplus despite relatively generous unemployment benefit provisions is that it requires employers and workers to pay relatively high premium rates. Workers and employers both contribute one per cent of the insured worker's salary. The Government contributes an additional one per cent of the insured worker's salary to the fund. Therefore their total contribution rate is three per cent, more than twice as high as the total contribution in Thailand of 1.25 per cent.

If we assume that there is no difference between the average wage of laid-off workers' pre-dismissal salary and that of those who remain employed, the total amount of unemployment benefits in Viet Nam will be  $0.6uw$ , where  $u$  represents the number of unemployment benefit recipients, and  $w$  the average of workers' salaries. The total amount of the contribution will be  $0.03ew$ , where  $e$  represents the number of insured workers. The total amount of unemployment benefit,  $0.6uw$ , exceeds the total amount of contribution,

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<sup>30</sup> Data shared by the Bureau of Employment, MOLISA, during a Workshop on the role of ESCs to facilitate reemployment of the unemployed, Thai Ngyuen, 3-4 October 2012, sponsored by the ILO/Japan-ASEAN UI Project. <http://www.social-protection.org/gimi/gess/ShowProjectPage.do?pid=1725> (accessed on 29 October 2012).

0.03ew, only when  $u/e$  is larger than 0.05 ( $=0.03/0.6$ ). In other words, benefit payouts will exceed contributions only when the number of recipients exceeds five per cent of the total number of insured workers. By July 2012, the number of insured workers was about 8.9 million, while the number of unemployment benefit recipients was about 318,039 for the first seven months of the year. This means that the ratio of recipients to total insured was around 3.6 per cent.<sup>31</sup>

#### 4-3. Financial viability of unemployment insurance

Thailand's eight-year experience shows that an unemployment insurance scheme can be "profitable" if the contribution rate and unemployment benefits are properly designed. It is true that unemployment rates in Thailand have been lower than those of other ASEAN countries, as shown in figure 3. However, an unemployment benefit scheme can be financially feasible even in a country with a much higher unemployment rate.

An unemployment insurance scheme usually has eligibility criteria to receive unemployment benefits. In the case of Thailand, only those who have worked and paid contributions to the Social Security Fund for at least six months in the 15 months before unemployment are eligible for unemployment benefits. The recipients are also required to register with the Government's Employment Service Office (ESO), report their work status at least once a month, be ready to participate in skill development or job training programmes arranged by the Department of Skill Development, and accept any suitable job offer made by the ESO.

Unemployment insurance in Viet Nam also has similar eligibility criteria. Article 81 of Viet Nam's Social Insurance Law stipulates that only those who have paid unemployment insurance premiums for at least 12 months within the 24 months prior to job loss are entitled to unemployment benefits. Article 87 prohibits recipients from receiving an old-age pension simultaneously.

By requiring prior contribution, the unemployment insurance schemes in Thailand and Viet Nam exclude first-time job seekers and those who are employed in the informal economy from unemployment benefits. However, first-time job seekers occupy a sizable portion of the unemployed in ASEAN countries, as shown in table 6.

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<sup>31</sup> Data shared by the Bureau of Employment, MOLISA, during a Workshop on the role of ESCs to facilitate reemployment of the unemployed, Thai Ngyuen, 3-4 October 2012, sponsored by the ILO/Japan-ASEAN UI Project. <http://www.social-protection.org/gimi/gess/ShowProjectPage.do?pid=1725> (accessed on 29 October 2012).

**Table 6. Number and share of first-time job seekers in selected ASEAN countries**

(Unit: Thousand persons)

	2002	2003	2004	2005	2006	2007	2008
<b>Indonesia</b>							
(1) Unemployed workers	9 132	9 939	10 251	11 899	10 932	10 011	9 395
(2) Previously employed	5 445	7 254	7 126	8 293	7 593	6 400	5 756
(3) First-time job seekers	3 687	2 685	3 125	3 607	3 340	3 611	3 639
Share of (3) in (1)	40%	27%	30%	30%	31%	36%	39%
<b>Malaysia</b>							
(1) Unemployed workers	344	370	366	368	354	351	369
(2) Previously employed	184	240	233	229	228	228	234
(3) First-time job seekers	160	130	133	139	126	124	135
Share of (3) in (1)	47%	35%	36%	38%	35%	35%	37%
<b>Thailand</b>							
(1) Unemployed workers	616	543	549	496	450	442	451
(2) Previously employed	380	326	316	315	261	276	270
(3) First-time job seekers	236	217	233	181	189	166	181
Share of (3) in (1)	38%	40%	42%	36%	42%	38%	40%
<b>Phillipines</b>							
(1) Unemployed workers	3 874	3 936	4 250	2 748	2 829	2 653	2 716
(2) Previously employed	2 588	2 577	2 796	1 992	2 104	1 924	2 042
(3) First-time job seekers	1 286	1 359	1 453	756	725	729	674
Share of (3) in (1)	33%	35%	34%	28%	26%	27%	25%

Source: ILO, LABORSTA

Whether the unemployment insurance fund has a surplus or deficit does not depend directly on the unemployment rate. It depends on the ratio of unemployment benefit recipients to the total number of the insured workers. Contrary to the conventional wisdom, Thailand's experience shows that, at least in the first decade of unemployment insurance implementation, the ratio of unemployment benefit recipients to the total number of the insured workers does have a strong positive correlation with the unemployment rate.<sup>32</sup> The ratio of unemployment benefit recipients to the total number of the insured workers depends more on the duration of unemployment benefits and eligibility conditions. Other things being equal, the longer the period that unemployment benefits are provided to unemployed workers, the larger the ratio of unemployed benefit recipients becomes. The stricter the eligibility conditions, the smaller the ratio will be. Therefore, an unemployment insurance scheme can be designed in a way such that it will not run a deficit even in

<sup>32</sup> A correlation coefficient between unemployment rates and the ratio of unemployment benefit recipients to the total number of insured workers in Thailand from 2004-2010 is -0.61 (n=7).

countries with high unemployment rates. Political acceptance of unemployment insurance, however, does not solely depend on financial viability.

#### 4-4. Political feasibility of unemployment insurance

The accumulation of large surpluses by the unemployment insurance fund undoubtedly pleases the Government. But for the workers as well as employers, an unemployment insurance scheme that creates a surplus every year might look like a mechanism that collect "a new form of tax".

Trade unions leaders in Thailand had repeatedly demanded the introduction of unemployment insurance and celebrated when it was finally introduced in 2004. But the rank-and-file union members' reaction was far from enthusiastic. Their reserved response was not without reason. Unemployment insurance can provide a partial, temporary, but still important, protection against unexpected job loss. Though many workers understand the importance of having protection against an unexpected job loss, they also know that, for many of them, the amount of money they will pay in contributions to the unemployment insurance scheme is very likely to exceed the amount of money they will receive as unemployment benefits.<sup>33</sup> Recently, in Thailand, the Social Security Office and some research institutes, such as Thailand Development Research Institute have raised concerns on the low performance of the scheme to replace unemployed in work<sup>34</sup>, including the low participation to vocational training support though encouraged by the scheme. Similar concerns are also shared by the Bureau of Employment in Viet Nam, Viet Nam General Confederation of Labour and Viet Nam Chamber of Commerce and Industry (ILO, 2012)<sup>35</sup>.

Not many governments in ASEAN countries are well trusted by workers and employers. Rampant corruption and administrative inefficiency in Government's agencies make them uneasy paying high contributions for unemployment insurance. Their suspicion that a sizable

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<sup>33</sup> Personal interview with Prathuang Saengsang, president of the Labour Congress of Thailand, in Bangkok in December 2004. It should also be noted that unemployment insurance was introduced in the heydays of the first Thaksin administration, but unlike some other social policies introduced under the Thaksin administration, the pro-Thaksin camp seldom made any reference to the introduction of unemployment insurance as one of their achievements in their election campaigns in 2005, 2007 and 2011. A number of trade unions' leaders I interviewed told me that unemployment insurance was well received by the majority of the workers but not as popular as some other social policies introduced by the Thaksin administration.

<sup>34</sup> In 2009 and 2010, about 65 per cent and 27 per cent of the insured unemployed found their new job without the help of ESO (Worawan, 2012, p.25).

<sup>35</sup> Report of the workshop on the role of ESCs to facilitate reemployment of the unemployed, Thai Ngyuen, 3-4 October 2012, sponsored by the ILO/Japan-ASEAN UI Project. <http://www.social-protection.org/gimi/gess/ShowProjectPage.do?pid=1725> (accessed on 29 October 2012).

portion of the contributions they pay might be spent on ineffective and obsolete job training projects, the construction of costly facilities, and procurement of overpriced computer hardware and software—through which some government officials, politicians, and businessmen can lucratively benefit—is not entirely groundless. Even if we set aside such suspicions among workers, some of those who live close to the poverty line are still likely to feel somewhat reluctant to spare a portion of their earnings to prepare for uncertain risk of job loss in the unforeseen future. Similarly, employers—many of whom believe that good managers will not have to cope with firing their staff—often feel reluctant to pay unemployment insurance premiums to help the workers laid off by other employers.

Under the above circumstances, it is difficult for the Government to collect high contributions from employers and workers. This is why contribution rates for employers and employees are kept low at 0.5 per cent and one percent of salary in Thailand and Viet Nam, respectively. However, with this low contribution rate, unemployment insurance cannot offer generous benefits to unemployed workers. In the early process of the tripartite consultation on unemployment insurance, some employers proposed that compulsory severance pay regulations should be abolished once unemployment insurance was introduced. Nevertheless such proposals were quickly rejected because the amount of unemployment benefits was unlikely to match the amount of severance pay. The maximum amount of unemployment benefit in Thailand is three months' wages since involuntarily laid-off workers can receive 50 per cent of their salary only up to six months, regardless of their length of service. However, as shown in table 2 in section 3, those who lost their job after having worked for five years can get a severance pay equivalent to five months' salary, and those who are laid off after having worked for more than ten years can get ten months' salary as a severance pay. In practice, however, compliance with severance pay regulations during periods of economic difficulties puts a lot of pressure on employers (ILO, 2012). For this reason, unemployment benefits appear to be a more secure form of compensation for workers in the event of job loss.

One way to make unemployment benefits more generous without charging higher contributions is to make the eligibility criteria stricter. Thailand's Ministry of Labour initially planned to exclude voluntary job quitters from unemployment benefits. However, in the process of tripartite consultation, trade union leaders strongly demanded that voluntary job quitters should also be given some benefits. After a series of negotiations, the Ministry of Labour finally agreed to provide voluntary job quitters with 30 per cent of their pre-job-loss salary for up to three months (Thai Journalist Association, 2006).

As shown in table 5, according to the classification by the Social Security Office, those who quit their job "voluntarily" far outnumber involuntarily laid-off workers. Trade union leaders

and workers' rights advocates, however, argue that many of those who are classified as "voluntary" job quitters by the Social Security Office are, in fact, laid off involuntarily. Though it is difficult to estimate how prevalent it is for employers to "force" or "induce" their employees to "voluntarily" resign, judging from field research this author has conducted in Thailand over the past two decades, it would be safe to say that such practices are not "rare", especially in the small- and medium-sized companies. One of the most prevalent reasons why some employer prefer forced or solicited "voluntary" resignation as opposed to outright lay-off is a reluctance to provide severance pay to departing employees. Thailand's Labour Protection Act, B.E. 2541 (1998) exempts employers from severance pay when an employee "voluntarily" resigns. It should also be noted that the number of "voluntary" job quitters increased more than 50 per cent in 2009 (table 5). The Thai economy was hit hard by the global recession in 2009 and recorded its first negative GDP growth rate since 1998. It is not surprising that the number of "involuntarily" laid-off workers increased threefold in 2009. However, it is perplexing that the number of "voluntary" job quitters also jumped up in the midst of economic recession despite the dimmer prospects for better jobs. The widespread practice of "forced" or "induced" resignation is very likely the reason behind this perplexing phenomenon.

If the Government had effective and efficient mechanisms to prevent employers from forcing their workers to leave their job under the disguise of "voluntary" resignation, it might be advisable to exclude voluntary job quitters from unemployment benefits. If not, however, the exclusion of "allegedly voluntary" job quitters is likely to result in the denial of unemployment benefits for a large number of needy unemployed workers. On the other hand, if we make all the voluntary job quitters eligible to the full amount of unemployment benefits, it may encourage moral hazard.

The tripartite negotiation on unemployment insurance in Thailand resulted in a delicately balanced compromise on this issue. They agreed to provide a smaller unemployment benefit for a shorter period to voluntary job quitters, that is, only 30 per cent of their salary for only up to three months (compared to 60 per cent for six months applied to involuntarily laid-off workers).

Although unemployment insurance is likely to be welcomed by workers, their enthusiasm might be tempered if the scheme is designed to not have a deficit. Even with less than enthusiastic support from the workers, however, the introduction of unemployment insurance becomes politically feasible if employers do not strongly oppose it. In the case of Thailand, the employers did not strongly resist the scheme even though their request to abolish the existing compulsory severance pay programme in exchange for the introduction of unemployment insurance was turned down. Some employers saw it as a necessary cost of

further opening up the Thai economy. Unemployment insurance was introduced at a time in which the Thai government started negotiating with a number of countries for free trade agreements. A free trade agreement with China was signed in June 2003, with India in October 2003, with Australia in July 2004, and with New Zealand in April 2005. Negotiations with Japan and the US also started in 2004.<sup>36</sup> The importation of the manufactured products from other ASEAN countries was also expected to increase as a result of the ASEAN free trade agreement. Many employers' representatives in Thailand—who still had vivid memories of the social turmoil and adverse business impact caused by Asian economic crisis—were well aware of the necessity for enhancing the social protection system to alleviate the potential adverse effects of further opening of the Thai economy. On the other hand, businesses were reluctant to bear a large burden when they have to face increasingly fierce international competition. The Social Security Act of Thailand, B.E. 2533 (1990), stipulates that the employers' and workers' contribution rate for unemployment insurance should be set at somewhere between zero and five per cent of workers' salaries (Article 46). Employers strongly opposed a high contribution rate during the tripartite consultations. They tempered their opposition only when they were assured that the contribution rate would be set at 0.5 per cent and would not be increased in the foreseeable future.<sup>37</sup>

It should also be added that, if properly combined with active labour market policies (e.g. support to job search, training and retraining in vocational training centers and in-enterprises, job retention programmes), unemployment insurance, besides providing income security, can also give flexibility to enterprises in adjusting to economic changes and in reorganizing their business (e.g. in case of introduction of new technologies), and facilitate mobility of labour force through income security and re-employment measures. Such arguments can be perceived positively by the employers (ILO, 2012).

In most cases, unemployment insurance can be introduced only as a result of political negotiations and maneuvering. Throughout the negotiation process, initial enthusiasm among workers is likely to recede, though not entirely disappear, while initially strong reluctance on the employers' side softens. The experiences of Thailand and Viet Nam, as well as those in the Republic of Korea and Japan, show that it is often the bureaucrats in the labour ministries who play a pivotal role in keeping the momentum going during the crucial

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<sup>36</sup> After a lengthy negotiation, a free trade agreement with Japan was signed in 2007. However, negotiations with the US have not yet reached an agreement, partly because it has faced strong opposition from various societal groups in Thailand and partly because the momentum was lost because of the interruption of negotiation after the military coup in 2006.

<sup>37</sup> An interview with an unemployment insurance expert sent by the Japan International Cooperation Agency to the Ministry of Labour in Thailand in Tokyo in April 2003.

stages of negotiations for the introduction of unemployment insurance.

During the negotiations, the presence of a large informal economy is also often cited as a reason to delay the introduction of unemployment insurance in developing countries. On the average, those who work in the informal economy tend to have lower and less secure income than their counterparts in the formal economy, making it questionable to pour a large amount of government budget into unemployment insurance.

However, as we have already shown in the previous section, properly designed unemployment insurance places little additional financial burden on the government. In Thailand, the Government is required to contribute 0.25 per cent of workers' salaries, which amounted to 2,180 million THB in 2010, while workers and employers contributed 4,360 million THB each. The total amount of unemployment benefits paid to unemployed workers in 2010 was 4,230 million THB, which is smaller than the total amount of workers' contributions.<sup>38</sup> In Viet Nam, the government contributes one per cent of workers' salaries. Worldwide, there are a number of countries that have introduced government financial support for their unemployment benefit systems. This government funding is also argued to support skills development and maintain competitiveness of the economy. This is particularly true when the unemployment insurance system includes vocational training allowances as is the case in both Thailand and Viet Nam.

Unemployment insurance in Thailand is managed as a part of the social security system. The administrative cost for the whole social security system was 3,720 million THB in 2010. Contributions for unemployment insurance accounted 9.4 per cent of the total amount of contributions to the social security system and unemployment benefits accounted 9.7 per cent of the total benefits paid to insured workers in 2010 (Social Security Office, 2011). If we assume that ten per cent of the total social security system's administrative cost is spent on unemployment insurance, the administrative cost of the unemployment insurance system in 2010 was approximately 372 million THB. By deducting the estimated administrative cost and total unemployment benefit payouts from the total amount of contributions to the unemployment fund, we can estimate that the unemployment insurance scheme generated a surplus of about 6,300 million THB in 2010. According to its annual report, the Social Security Office in Thailand invested 72.8 per cent of its profits in treasury bills, government bonds, and state enterprise bonds in 2010 (Social Security Office, 2011). This means that approximately 4,500 to 4,600 million THB of the unemployment fund were invested in bonds

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<sup>38</sup> The amount of workers' contributions exceeded the amount of unemployment benefit payouts every year since the start of unemployment insurance in 2004, except for 2009. In the seven years between 2004 and 2010, workers in Thailand contributed 26,394 million baht to the unemployment fund and received 16,653 million baht, or about 63 per cent of the money they paid for unemployment benefits.

and treasury bills, which was twice the government's contribution to the unemployment fund. If the money raised by selling government bonds and treasury bills to the social security fund is used to implement policies aimed to enhance social protection for workers in the informal economy, unemployment insurance can indirectly contribute to the betterment of the lives of those who work in the informal economy, rather than hampering it. Such link will happen only if the government shows solid commitment to the implementation of a social protection floor in the country.

## 5. Conclusions

### 5-1 Three myths about unemployment insurance

It has long been pointed out that Asian countries do not know each other well. They have been looking at Europe and North America without paying much attention to the experiences of other Asian countries. Studying unemployment insurance is no exception. The perceptions people in ASEAN countries hold about unemployment insurance are based mostly on their knowledge about complex and costly unemployment insurance systems as applied in Europe North America, Japan and Republic of Korea. In order to derive practical policy recommendations for ASEAN countries regarding social protection for unemployed workers, there is a need to dispel some of the myths about unemployment insurance.

#### **Myth 1: Unemployment insurance puts too much burden on government resources**

As we have already shown in the previous section, unemployment insurance in Thailand has accumulated large surpluses every year since its start in 2004. It recorded a hefty surplus even in 2009, in which the GDP growth rate plunged to -2.3 per cent because of the adverse impact of the international economic downturn. Unemployment insurance in Viet Nam, which started providing unemployment benefits in January 2010, has also recorded a surplus.

By maintaining the amount and duration of unemployment benefits smaller and shorter than those in Europe, Thailand and Viet Nam have managed to implement unemployment insurance without putting much burden on government resources. Despite the short duration and limited amount of benefits, unemployment insurance alleviates some of the difficulties faced by unemployed workers in these two countries. Ultimately unemployment insurance aims to protect the unemployed and family against the suspension of earnings due to loss of employment. In all cases, the duration and amount of benefits should be kept in conformity with standards prescribed by the Conventions No.102 and No.168.

It can be justifiable to provide limited benefits of short duration, though always kept with the

ILO standards<sup>39</sup>, not only from the viewpoint of financial viability, but also from the viewpoint of social equity. As we have pointed out, workers covered by unemployment insurance in ASEAN countries are often not the most distressed group of people in their societies. Those who work in the informal economy and underemployed workers are often in more need of social assistance.

### **Myth 2: Unemployment insurance increases the number of the unemployed**

As Thailand's eight-year experience with unemployment insurance shows, the implementation of unemployment insurance does not necessarily increase the number of unemployed. Laid-off workers in Thailand receive only 50 per cent of their pre-lay-off salaries for a maximum of six months, while in Viet Nam unemployed workers receive 60 per cent of their past earnings for a maximum of twelve months. Unless a worker's salary was twice as high as the subsistence level, they cannot survive by solely relying on unemployment benefits. As unemployment benefits provide only a partial replacement of the reference wage, it gives individuals strong incentives to look for a new job. A short duration of unemployment benefits (up to 13 weeks within 12 months as recommended by the Convention No.102, 26 weeks for each spell of unemployment or 39 weeks within 24 months as per the Convention No.168) also prevents unemployment insurance from causing an increase in the number of unemployed workers.

### **Myth 3: Unemployment insurance adversely affects international competitiveness by increasing the cost of doing business**

Since unemployment insurance requires both workers and employers to pay contributions, unemployment insurance can increase the cost of production. It is, however, very unlikely that any required unemployment benefit contributions would have a significant impact on the cost of doing business. This conclusion flows from the fact that unemployment benefits systems in ASEAN in general are bound to be a low-cost measure, especially since official unemployment rates are relatively low and stable across the region, with the possible exceptions of Indonesia and the Philippines. If the contribution rates are kept very low, as is the case in Thailand and Viet Nam, the additional labour costs and, by extension, business costs would be very low. Therefore, the adverse effects of unemployment insurance on international competitiveness can be minimized. The increased costs can further be offset if unemployment insurance functions well and facilitates industrial restructuring. Labour productivity might also be improved if the workers feel more secure in their employment.

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<sup>39</sup> Up to 13 weeks within 12 months as recommended by the Convention No.102, 26 weeks for each spell of unemployment or 39 weeks within 24 months as per the Convention No.168.

Globalization poses four seemingly conflicting challenges to developing countries: 1) to keep production cost low, 2) to upgrade workers' skill levels and keep workers' morale high, 3) to continue developing social security systems that will also contribute to a more productive work force, and 4) to keep the economic structure flexible in order to adjust quickly in response to the rapidly changing global environment. Low production costs are undoubtedly key to surviving fierce international competition. However, if countries rely solely on low wage and low social security levels for their international competitiveness, they cannot expect much improvement in their workers' skill and productivity levels as well as in their work morale. However, without such improvement, it is difficult to climb up the ladder of economic development. Better combination of social security and employment support systems will provide workers with greater opportunities to enhance their capabilities and employability.

## 5-2. Policy recommendations for ASEAN countries

ASEAN will pursue reforms with the goal of achieving greater economic openness and more business opportunities. Such systemic economic reforms will inevitably lead to labour law amendments, which should not be solely at the expense of the workers. Such concerns were raised during the 21<sup>st</sup> ASEAN Summit, held in Phnom Penh, Cambodia, in November 2012, when ASEAN member States recognized social protection as a key priority for achieving growth with equity and “integration with a human face” by 2015<sup>40</sup>. Thus, economic reforms should be complemented with the introduction of unemployment protection measures and reinforced active labour market policies that will guarantee the right to social security to all workers in formal and informal economy.

From the above review and analyses, we can draw the following policy recommendations:

1) Unemployment benefits should be introduced, as part of a progressive implementation of a social protection floor and a comprehensive social security system.

- Current compulsory severance pay schemes often fail to address the needs of laid-off workers and do not guarantee compensation for the loss of income, especially when enterprises are adversely affected by an economic recession. Compulsory severance pay schemes put heavy burdens on employers who find themselves at the edge of bankruptcy during economic downturns.
- Properly designed unemployment insurance places little financial burden on

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<sup>40</sup> Concept Note “Integration with a Human Face” and a “Plan of Action on ASEAN Social Protection” proposed by the Royal Government of Cambodia during the 21<sup>st</sup> ASEAN Summit, held in Phnom Penh, Cambodia, 15-20 November 2012

governments and employers. The social benefits of unemployment insurance are likely to exceed the social costs since official unemployment rates are relatively low across the region and the number of those insured entitled to receive unemployment benefits will be limited to those formally employed..

- An increase in severance pay in exchange for the postponement of the introduction of unemployment insurance tends to benefit organized and better-educated workers at the expense of unorganized workers with lower educational background, which occupy the vast majority of workers in most ASEAN countries. The absence of properly functioning mechanisms to prevent noncompliance makes it difficult for workers with little voice to get a severance pay as stipulated by law when they are laid-off, while organized and better-educated workers have a better chance. Therefore, it is not recommendable to increase a compulsory severance pay as a way to avoid or postpone the introduction of unemployment insurance.
- While reaching a consensus and preparing the introduction of unemployment insurance, the monitoring and enforcing mechanisms for compulsory severance pay should be enhanced. Better enforcement of compulsory severance pay not only alleviates the plight of the laid-off workers but also facilitates a smooth transition to unemployment insurance. Trade unions and employers groups should be encouraged to play more active roles in those monitoring and enforcing mechanisms.
- Unemployment insurance also needs good monitoring systems. Trade unions, employers' associations should be allowed to have a say in such systems so that they can be sure that the contribution they made to the unemployment fund is not misused.
- Negotiations for the introduction of unemployment insurance schemes should not leave aside the challenge of extending social protection to workers in informal economy, long-term unemployed and new entrants. It is recommended that introduction of unemployment insurance schemes being part of a comprehensive national social protection strategy, which will aim to progressively reach universal coverage and higher level of benefits, and will link with decent and productive employment promotion policies.

2) A low-cost model of unemployment insurance that provides limited benefits for a short duration is more suitable for ASEAN countries.

- Research findings in the Philippines and Thailand reveal that many healthy workers with low incomes find new jobs within six months of dismissal. Increasing the duration of unemployment benefits longer than six months will benefit relatively wealthy workers rather than those who live close to the poverty line. Extending the

duration of unemployment benefits can adversely affect the wellbeing of low-paid workers if the contribution rates for the unemployment fund have to be increased to cover the cost of extending the duration of coverage.

However, in all cases, level of benefits should remain in line with ILO standards. Under Convention No.102, the benefit must attain 45 per cent of the reference wage for a standard beneficiary (man with wife and two children); under Convention No.168, this rate is 50 per cent of the reference wage. The Convention No. 102 prescribes that benefits may be limited to 13 weeks within a period of 12 months; in the case of Convention No.168, the initial duration of payment of benefits may be limited to 26 weeks in each spell of unemployment, or to 39 weeks over any period of 24 months.<sup>3</sup>) Active labour market policies, e.g. measures to retain employment and/or increase worker capability and employability, are a crucial element of an unemployment insurance system. Thailand and Viet Nam now realize that this component of the system, which was somewhat neglected in the implementation of the scheme, need to be reinforced.

- Although being a crucial element of an unemployment insurance system, international experiences suggest that contributions paid by the workers should not be spent on active labour market programmes (ALMPs), e.g. measures to retain employment and/or increase worker capability and employability. Such measures should be financed by employers and governments as an effort to increase competitiveness of the economy.
- ALMPs are often plagued with inefficiencies and low coverage. In order to keep the unemployment insurance scheme as transparent as possible, funds for ALMPs should not be mingled with the unemployment insurance funds, although a close articulation between the two sets of measures is recommended.
- ALMPs, financially separated from the unemployment insurance scheme, should not only target those who are covered by unemployment insurance but also the vulnerable workers in the informal economy. ALMPs for vulnerable workers should be tax-funded.

4) In the ASEAN context, voluntary quitters should not be left completely unprotected, unless government agencies have effective and efficient mechanisms to distinguish genuine voluntary quitters from "disguised" or "forced" voluntary quitters.

- Forced "voluntary" resignation is widespread in many ASEAN countries. The complete denial of unemployment benefits to "voluntary" quitters runs a serious risk of excluding many needy workers. Given this situation, it could be envisaged that providing lower and shorter unemployment benefits to those who voluntary leave employment is preferable to providing no benefits at all.

- Not all the voluntary quitters, however, are forced to quit. By making the duration and the amount of unemployment benefit shorter and lower than for involuntarily laid-off workers, the financial burden of providing unemployment benefits to voluntary quitters can be minimized and disincentives to leave employment can be created. In addition, control mechanisms and sanction measures need to be established to ensure that voluntary leavers do not negotiate with their employers to return to work after a short period of unemployment, which constitutes a misuse of the unemployment benefit system.

5) The Convention No. 168 recommends no-overlapping of compensation through the compulsory severance pay and unemployment insurance schemes.

- A review of international experiences shows that often social partners negotiate a progressive move away from severance pay to unemployment insurance benefits. In many countries, including Viet Nam, entitlements cumulated under the new unemployment insurance system are not accounted for under the severance pay system. However, entitlements to severance pay accrued prior to the introduction of unemployment insurance benefits will still be granted to laid-off workers.
- In other countries, severance payments are deduced in the calculation of unemployment benefits. Alternatively, in some states of the United States, severance payments are regarded as continuation of wages for contribution purposes, so that workers receiving such payments would not be considered as unemployed.

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## Appendix I. Mandatory severance/retrenchment pay provisions in selected ASEAN countries

Country	Year severance pay enacted	Current legislation	Amount of severance pay for laid-off workers					
			Tenure (length of service)					
			6 months	9 months	1 year	5 years	10 years	20 years or more
Cambodia	1997	<p>Article 89 LC: If the worker is dismissed for a reason other than serious misconduct, the employer must pay an indemnity for dismissal. The amount of the indemnity depends upon the employee's length of continuous service:</p> <ul style="list-style-type: none"> <li>- for employment from 6 to 12 months: 7 days wages and benefits;</li> <li>- for employment over 1 year: 15 days wages and benefits for each year of employment, up to a maximum of six months' wages.</li> </ul> <p>This only applies to contracts of an unspecified duration.</p> <p>Note that art. 73 LC provides that: at the expiration of a fixed-term contract (the end of the term or completion of the task), the employer must pay the employee severance pay which may be fixed by collective agreement but should not in any case be less than 5 per cent of the total wages paid during the length of the contract.</p>	7 days	7 days	15 days	75 days	150 days	6 months
Indonesia	1948	<p>Under art. 156 of the Manpower Law, termination of the employment relationship gives rise to termination payments that include severance pay and/or long service pay.</p> <p>The amounts provided here correspond to severance pay: one</p>	1 month	1 month	1 month	5 months	9 months	9 months

		<p>month's wages for each year of service, up to a maximum of nine months' pay.</p> <p>The extent of the termination package depends on the circumstances of termination.</p> <p>In the event the termination is on the grounds of grave wrongdoings or absence five consecutive workdays without explanation, the worker is not entitled to any severance pay or long service pay. (Art. 160 MA)</p> <p>However, if a worker is terminated on the grounds of violation of the terms of employment, he will be nonetheless entitled to severance pay and reward pay. (Art. 158 (1) and 168 (1) MA)</p>						
Malaysia	1955	<p>The Employment (Termination and Lay-off Benefits) Regulations, 1980, provides for statutory severance pay in the event of termination on the following scale (sec. 6 (1)):</p> <ul style="list-style-type: none"> <li>- ten days' wages for each completed year of service of less than two years;</li> <li>- 15 days' wages for each year of two to five years' service;</li> <li>- 20 days' wages for each year of service exceeding five years.</li> </ul> <p>These Regulations apply to employees with more than one year's service (sec. 3(1)) and do not apply to dismissals for misconduct, after due inquiry (sec. 4).</p>	0 days	0 days	10 days	100 days	200 days	400 days
Philippines	1974	<p>No severance pay following termination for a just cause.</p> <ul style="list-style-type: none"> <li>- Dismissal for an authorized cause:</li> </ul>	1 month	1 month	1 month	2.5 months	5 months	10 months

		<p>1) Disease (employee who has been found to be suffering from any disease and whose continued employment is prohibited by law or is prejudicial to his health as well as to the health of his co-employees) Art. 284 LC.</p> <p>Severance pay shall amount to at least one month's salary or to one-half month's salary for every year of service, whichever is greater, a fraction of at least six months being considered as one whole year.</p> <p>2) Economic reasons: redundancy payment differs according to the situation: art. 283 LC.</p> <ul style="list-style-type: none"> <li>- It amounts to at least one month's salary or to one-half month's salary for every year of service, whichever is greater in case of retrenchment to prevent losses and in cases of closures or cessation of operations of establishment or undertaking not due to serious business losses or financial reverses.</li> <li>- However, in case of termination due to the installation of labour-saving devices or redundancy, redundancy payment is higher: it amounts to at least one (1) month's pay or one (1) month's pay for every year of service, whichever is higher.</li> </ul>						
Singapore		No provision for severance pay in the Employment Act.						
Thailand	1956	<p>Art. 118 LPA</p> <p>The amount of severance pay depends on the length of service as follows:</p>	30 days	30 days	90 days	180 days	300 days	300 days

	<p>- 120 days but less than 1 year: 30 days' wages  - 1 year but less than 3 years: 90 days' wages  - 3 years but less than 6 years: 180 days' wages  - 6 years but less than 10 years: 240 days' wages  - more than 10 years: 300 days' wages.</p> <p>This does not apply to employees who have a fixed term contract of employment and whose employment is terminated in accordance at the end of the specified term.</p> <p>In addition, according to art 119 LPA, as amended by LPA No. 2 of 2008 (art.18), severance shall not be paid by the employer if the dismissal was the result of a serious misconduct of the employee.</p> <p>The LPA defines serious misconduct as follows:</p> <p>"(1) performing his/her duty dishonestly or intentionally committing a criminal offence against the employer;  (2) willfully causing damage to the employer;  (3) committing negligent acts causing serious damage to the employer;  (4) violating work rule, regulation or order of the employer which is lawful and just, and after written warning having been given by the employer, except for a serious case with no requirement for the Employer to give warning.  (5) absenting himself/herself from duty without justifiable reason for three consecutive working days regardless of whether there is</p>						
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		holiday in between; (6) being sentenced to imprisonment by a final court judgment"						
Viet Nam	1994	Art. 42 (1) LC and 14 Decree 2003. Upon termination of employment, a worker who has been employed for more than one year is entitled to severance pay, which shall amount to half a month's wages plus other benefits, if any, for each year of service. Severance pay shall be paid within 7 day from the termination date. However, a worker will not be entitled to severance pay if he has been dismissed as a disciplinary measure (except in case of excessive absence) or if he is receiving a monthly pension.	0 days	0 days	0.5 months	2.5 months	5 months	10 months