

# ***Regional Challenges in Structural Unemployment***



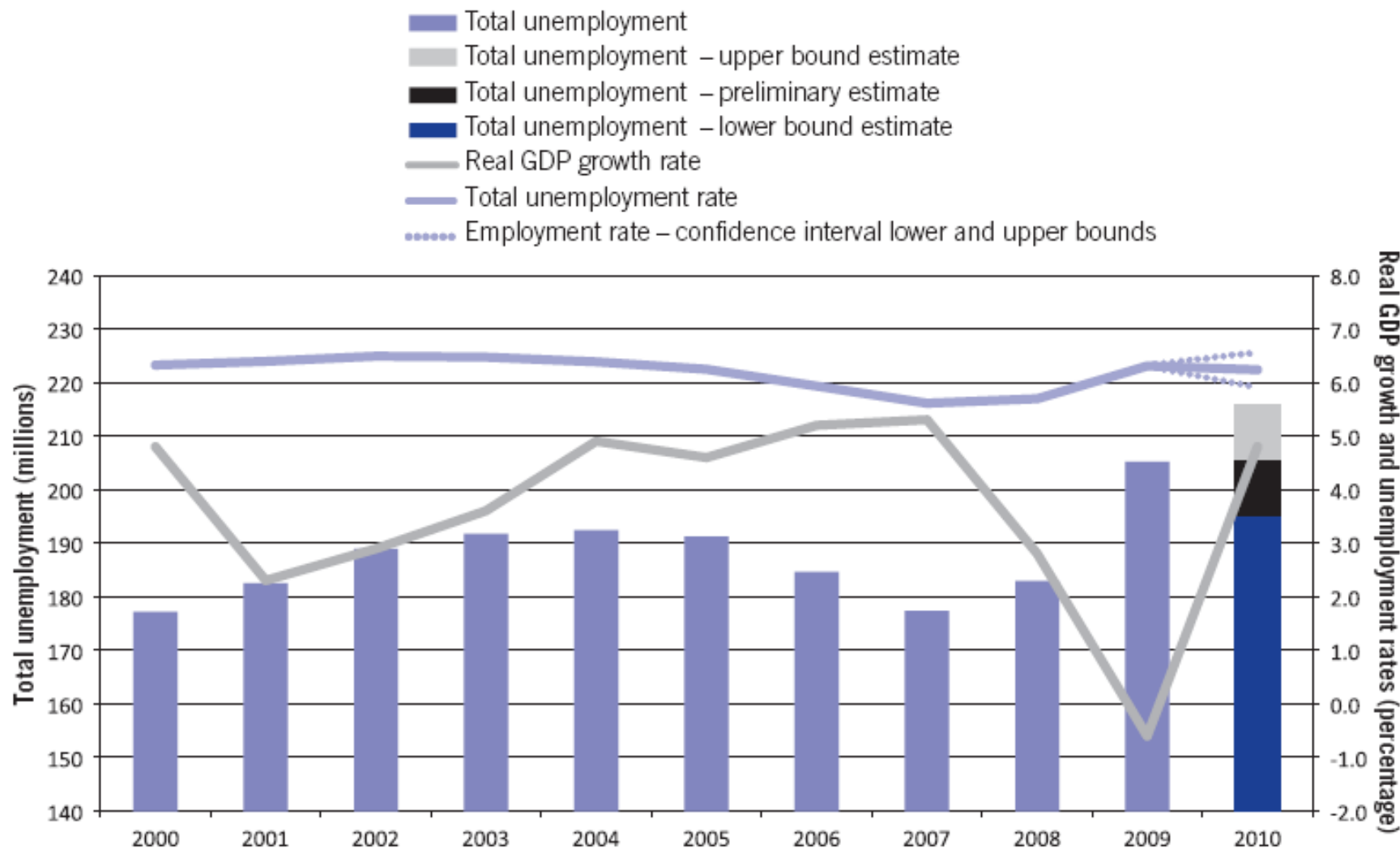
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# Presentation Outline

- I. Introduction, trends and challenges***
- II. Shift and measures***
- III. Financial crisis and unemployment***
- IV. The Chinese Taipei experience***
- V. Discussions***

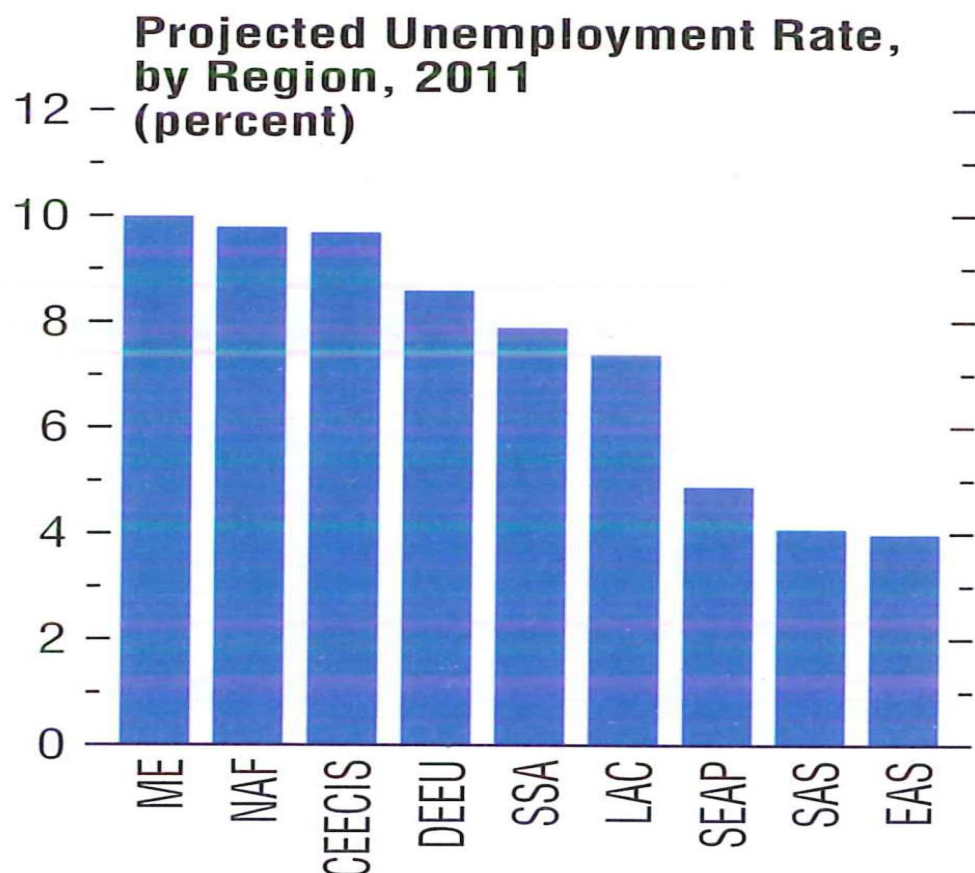
# Global unemployment trends



\* 2010 are preliminary estimates.

Source: ILO, *Trends econometric models*, October 2010

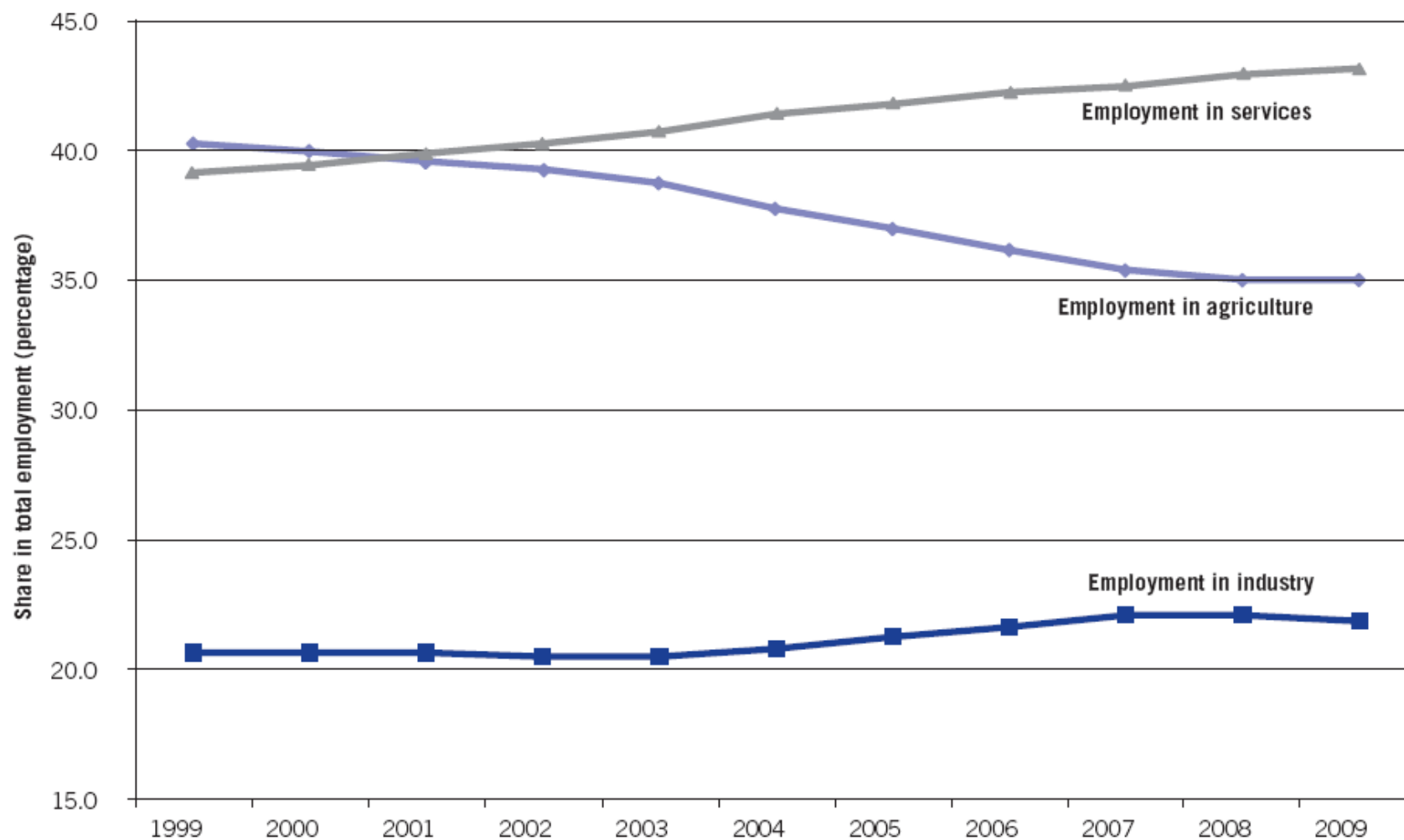
# Unemployment Rate by Region



Sources: Haver Analytics; International Labor Organization; and IMF staff estimates.

<sup>1</sup>AR: Argentina; AU: Australia; BR: Brazil; CA: Canada; CEECIS: central and southeastern Europe (non-EU) and Commonwealth of Independent States; CN: China; DE: Germany; DEEU: developed economies and European Union; EAS: east Asia; EU: euro area; FR: France; GB: United Kingdom; ID: Indonesia; IT: Italy; JP: Japan; KR: Korea; LAC: Latin America and the Caribbean; ME: Middle East; MX: Mexico; NAF: north Africa; RU: Russia; SAS: south Asia; SEAP: southeast Asia and the Pacific; SSA: sub-Saharan Africa; TR: Turkey; US: United States; ZA: South Africa.

# Global Employment by Sector



Source: ILO, Trends econometric models, October 2010

# Introduction

- ☑ Unemployment poses grave social and economic challenge
- ☑ Made worse under recent global financial crisis
- ☑ Three lines of defence against unemployment (IMF):
  1. Supportive macroeconomic policies;
  2. Financial sector repair;
  3. Specific labour market measures.

# Introduction

- ☑ Monetary policy is expected to stay loose in advanced economies
  - A different challenge for the emerging economies with inflationary concern
- ☑ Restructuring of financial and banking sector is needed
- ☑ Credit to small and medium enterprises also need to be addressed since they provide the bulk of jobs
- ☑ Broader market reform needed to create more jobs for structural/long-term unemployment

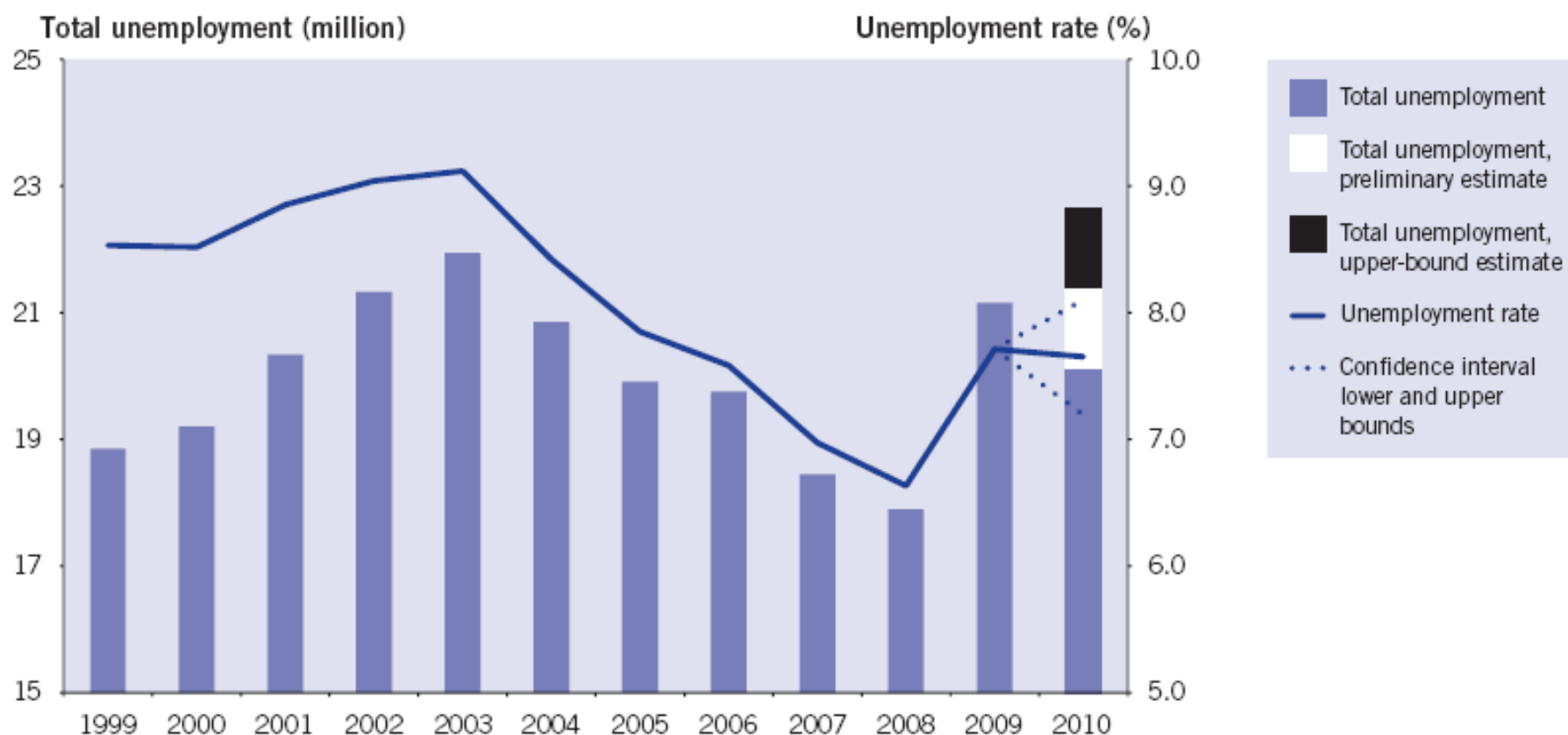


# Introduction

- ☑ **The structural unemployment concept is not well defined and there is considerable uncertainty and controversy concerning their measurement and policy use**

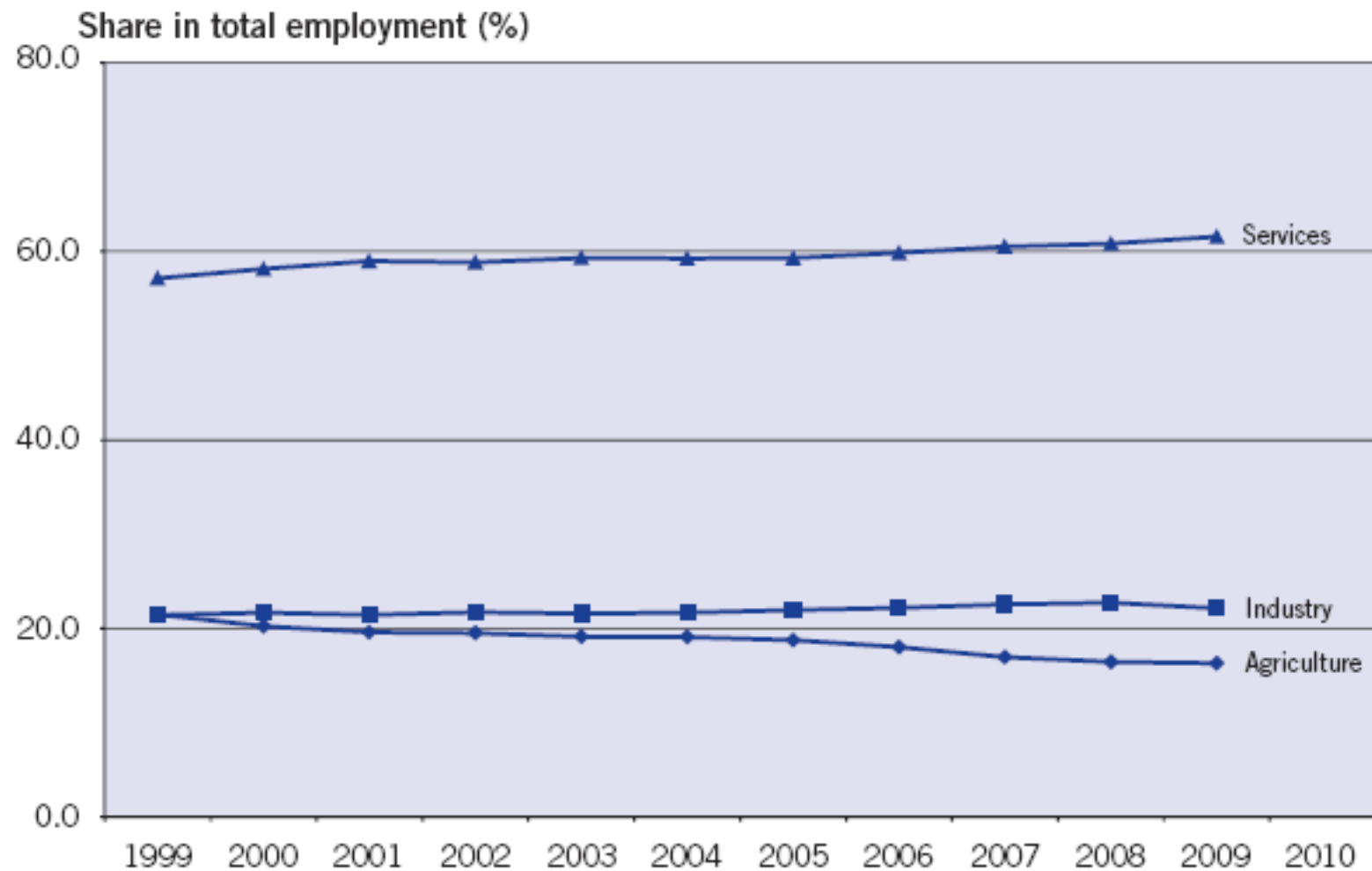


# Unemployment Latin America



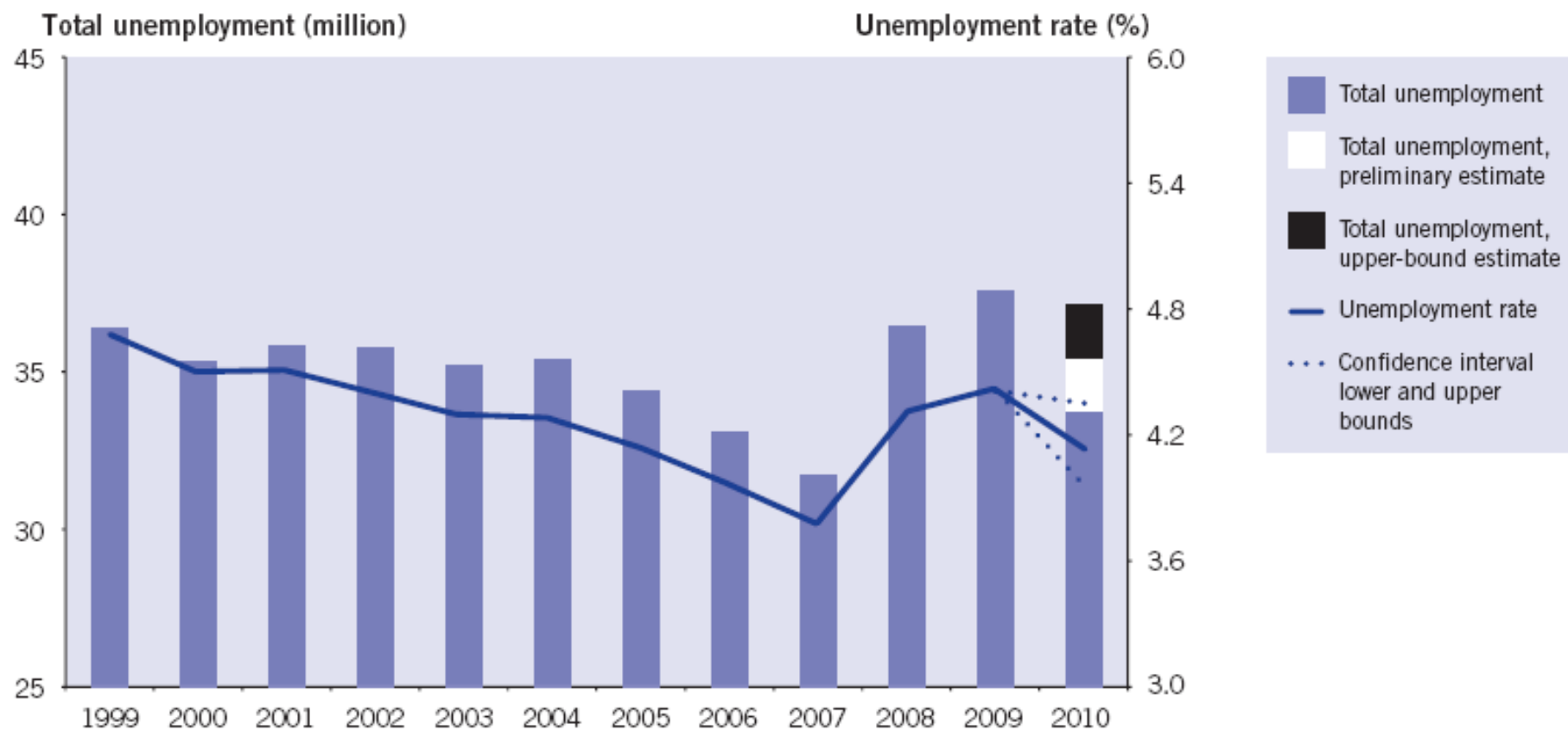
Source: ILO, Trends econometric models, October 2010

# Unemployment Latin America



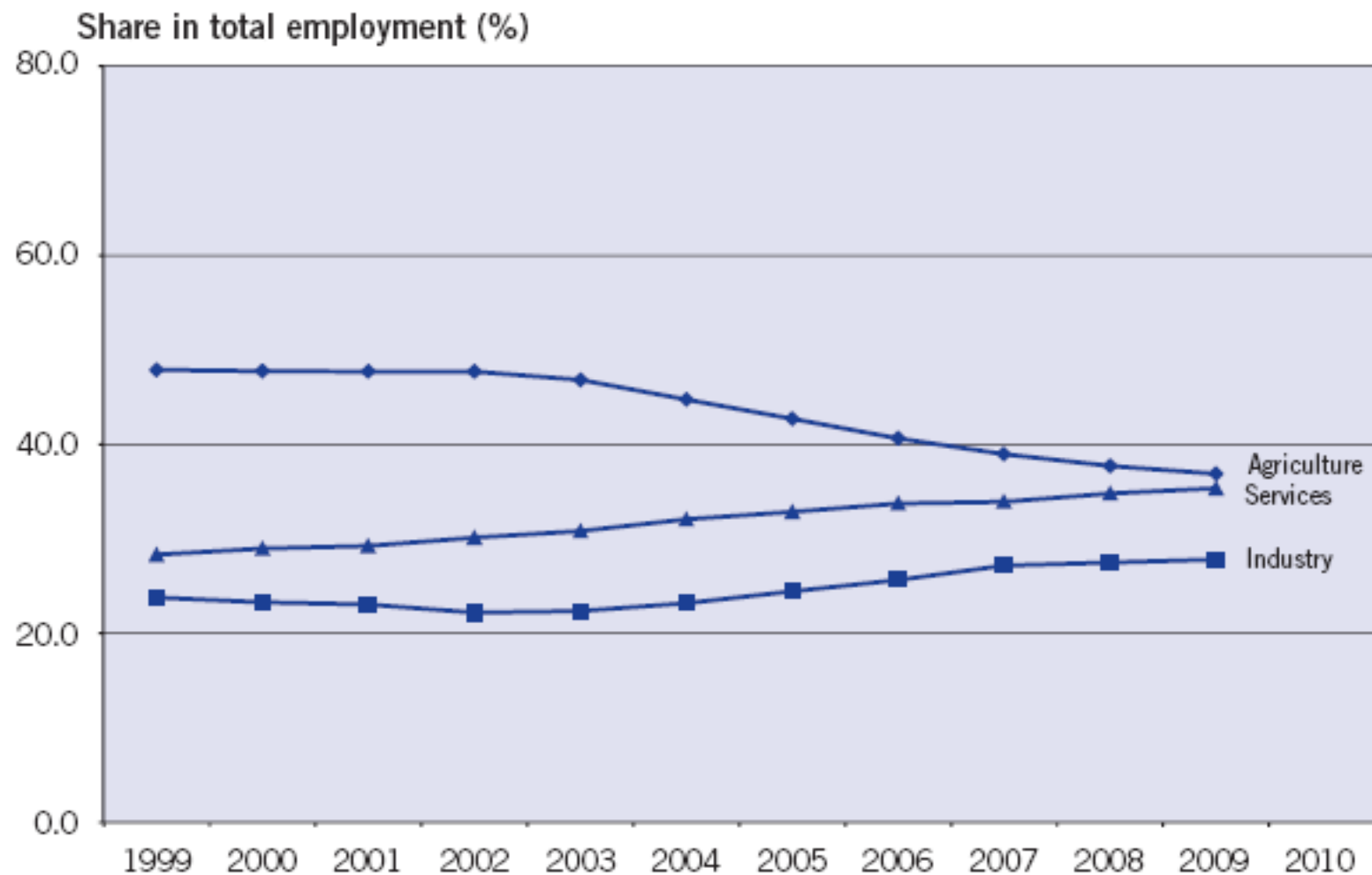
Source: ILO, Trends econometric models, October 2010

# Unemployment in East Asia



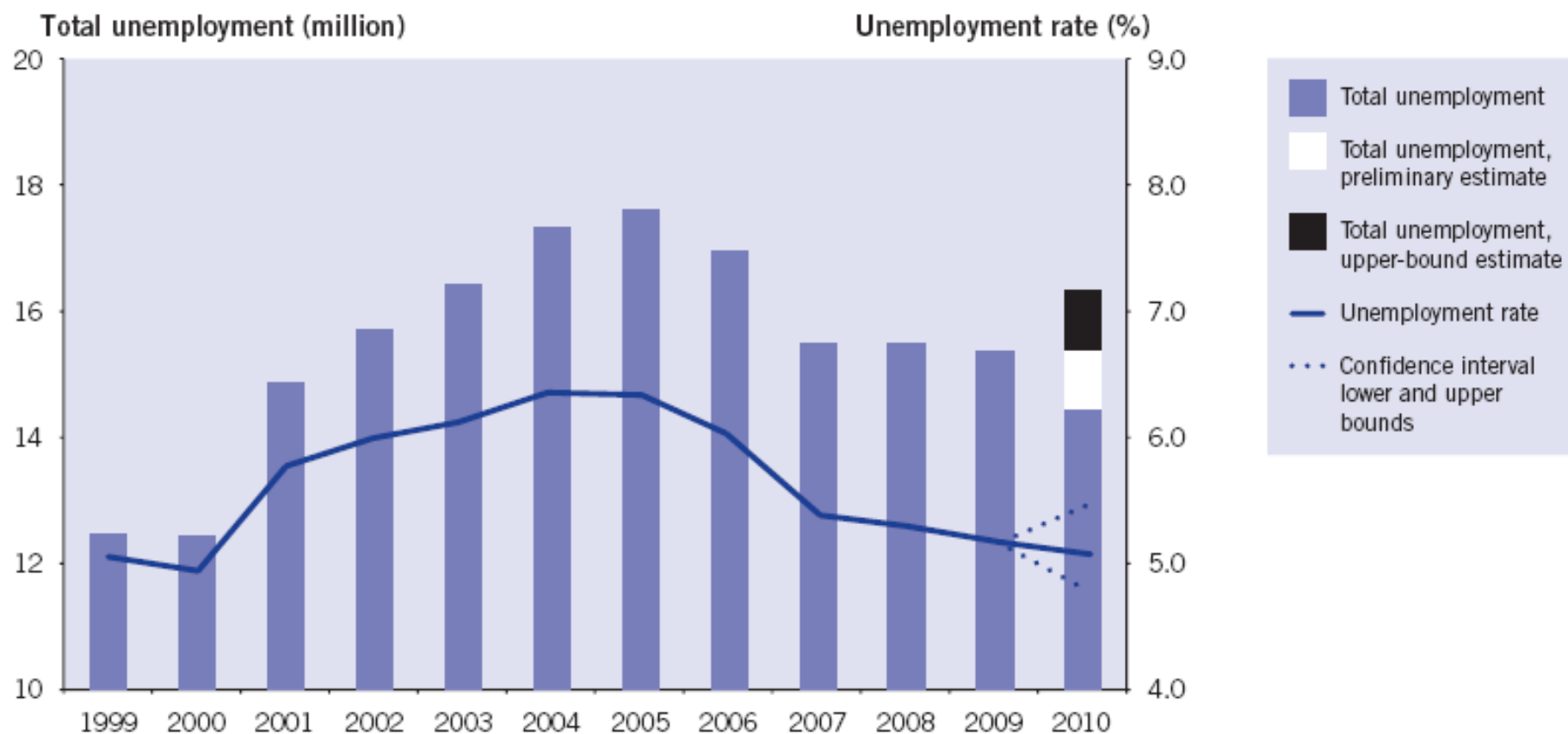
Source: ILO, Trends econometric models, October 2010

# Unemployment in East Asia



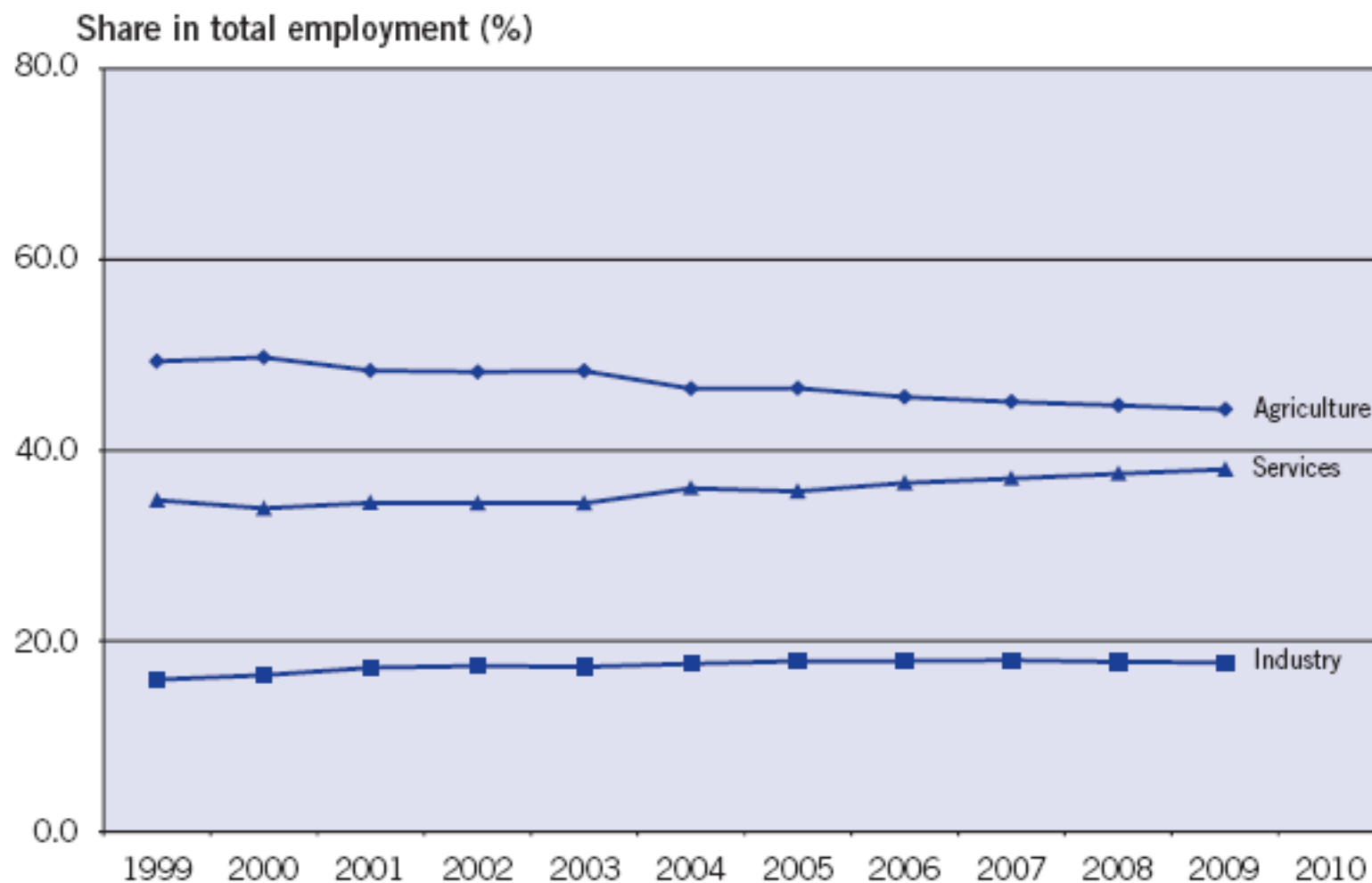
Source: ILO, Trends econometric models, October 2010

# Unemployment in South-East Asia and Pacific

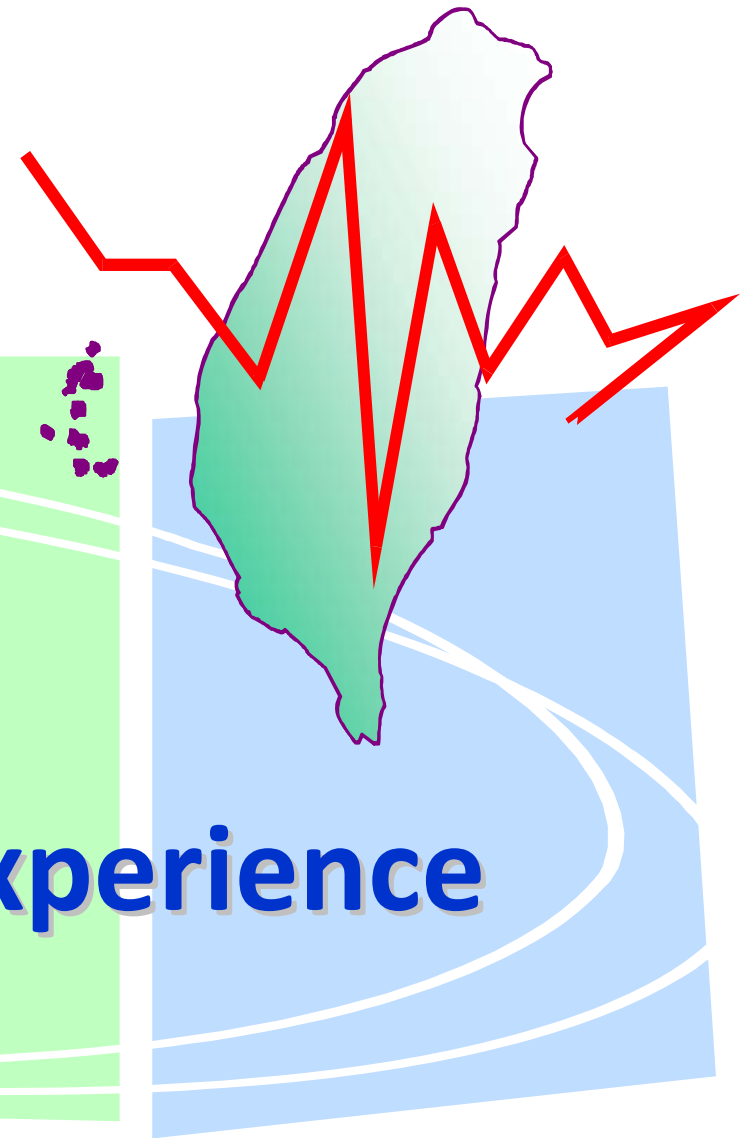


Source: ILO, Trends econometric models, October 2010

# Unemployment in South-East Asia and Pacific



Source: ILO, Trends econometric models, October 2010



# Chinese Taipei Experience

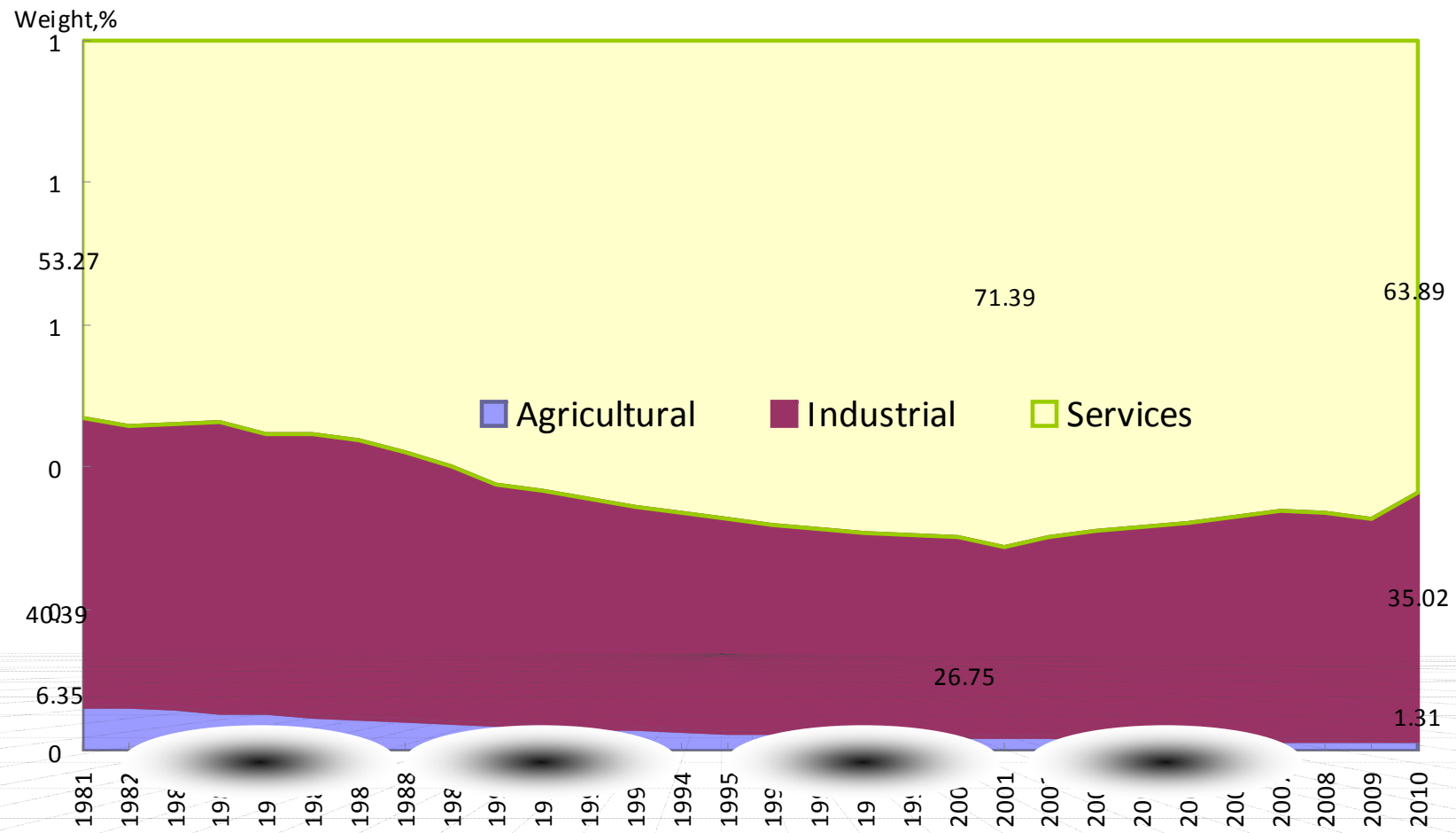


# Chinese Taipei Experience

- ☑ Chinese Taipei followed the conventional international manufacturing chain
- ☑ The export products in early days might change, but were predominately labour intensive
- ☑ The labour intensive manufacturing has at the same time provided much needed jobs
- ☑ The competitiveness shift started began in the 1980's

# Chinese Taipei Experience

- ☑ Chinese Taipei has managed to graduate from its labour intensive industry in the 1990's
- ☑ A result of globalisation and domestic industrial restructuring, the combination which propel the industry development from labour intensive to capital intensive



Source: Directorate General of Budget, Accounting and Statistics

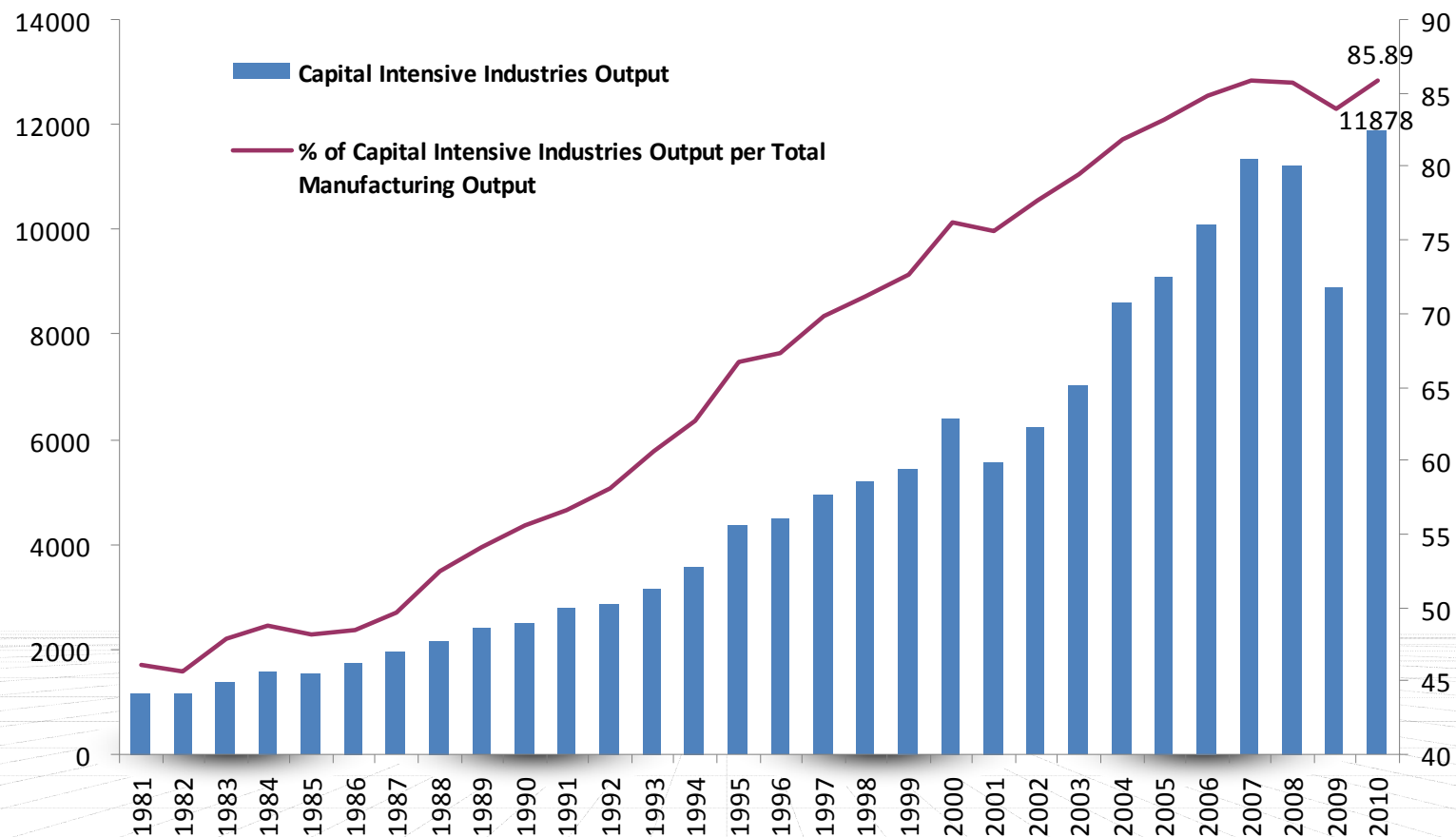
# Chinese Taipei Experience

The process of Chinese Taipei's industrial restructuring can be divided into four stages:

1. Decline of labour intensive industries;
2. Industrial regionalisation;
3. Demise of the agricultural sector;
4. Transformation of the service sector

# Chinese Taipei Experience

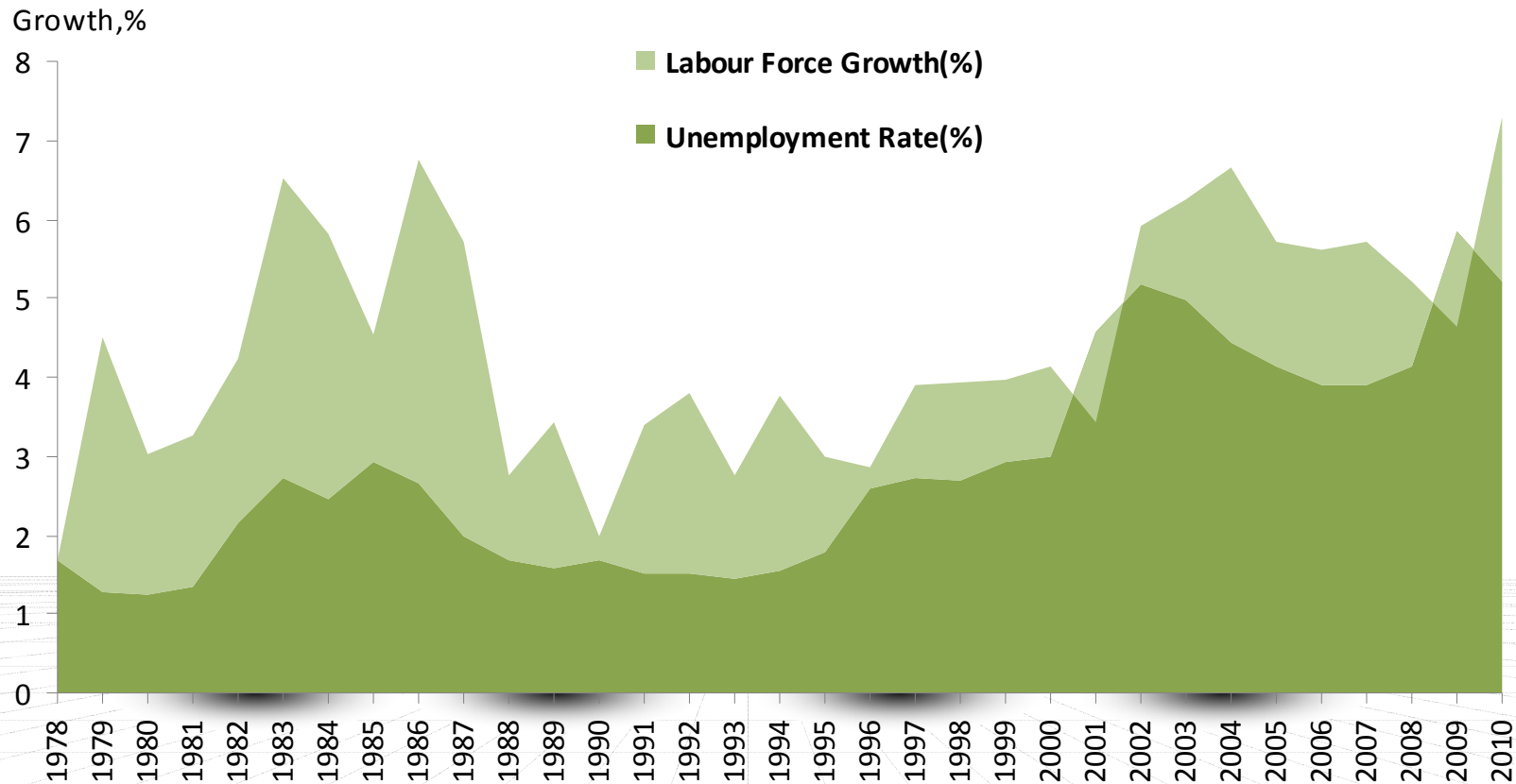
- ☑ By 1984, capital intensive and technology intensive industries total output have exceeded 50% of total industrial outputs
- ☑ By 1995, capital intensive and technology intensive industries total output exceeded over 70% of the total industrial outputs



Source: Directorate General of Budget, Accounting and Statistics

# Chinese Taipei Experience

- ✓ While the definition for structural unemployment is straight forward, obtaining an actual estimate is more complicated
- ✓ Using the Council for Economic Planning and Development survey, it is discovered structural unemployment made-up the bulk of Taipei's unemployed (more than frictional and seasonal)



Source: Directorate General of Budget, Accounting and Statistics

# Chinese Taipei Experience

- ✓ Globalisation and global competition has accelerated the pace of industrial restructuring
- ✓ Labour intensive manufacturing has been replaced by information technology
- ✓ Structural unemployment is not a unique to Chinese Taipei, in fact, it is a common ailment amongst OECD countries since the 1980's
- ✓ At the wake of new millennium, structural unemployment made up some 47% of the unemployed
- ✓ External shocks – The recent financial crisis has exasperated the job market difficulties

# Chinese Taipei Experience

Following the global financial Crisis, the Government has introduced: *“The 2010 Employment Promotion Implementation Plan”*

1. Expanding cooperation between the academia and the industries
2. Strengthening professional training
3. Increase job matching success rate
4. Provide salary subsidies
5. Strengthen implementations of short term employment promotion
6. Assist entrepreneurs and self-employed workers



# Chinese Taipei Experience

- ☑ Some of Chinese Taipei's initiative to improve job prospects are:



# Discussions

- ✓ Some of our economies are more exposed to long-term unemployment/structural risk;
- ✓ This varies across economies in our region
- ✓ Persistent high unemployment is a reflection of government policies that are not sufficiently proactive
- ✓ OECD Study suggests extended benefit is necessary to reduce unemployment, including raised benefit level, duration and coverage of the benefits
- ✓ OECD also suggests active labour market policies can reduce persistence

# Impacts of Policies on Unemployment

	Unemployment:			
	Level	Flow into	Flow out of	Persistence of
<b>Reduction in:</b>				
Unemployment benefit initial replacement rate	<b>Reduce</b>	No effect	<b>Increase</b>	Reduce
Unemployment benefit duration	No effect	No effect	Increase	Reduce
<b>Higher spending in:</b>				
Active Labour Market Policies	<b>Reduce</b>	<b>Reduce</b>	<b>Increase</b>	No effect
Public Employment Services	<b>Reduce</b>	<b>Reduce</b>	<b>Increase</b>	—
Job creation	Reduce	Reduce	Reduce	—
Training	No effect	Increase	Increase	—
<b>Reduction in:</b>				
Tax wedge	<b>Reduce</b>	No effect	<b>Increase</b>	<b>Reduce</b>
Tax wedge interacted with minimum wage	<b>Reduce</b>	No effect	<b>Increase</b>	—
Tax wedge interacted with nature of wage bargaining	<b>Reduce</b>	No effect	<b>Increase</b>	<b>Reduce</b>
Share of temporary contracts	No effect / Reduce	Reduce (prime-age women)	Reduce (prime-age women)	Increase
<b>Easing of:</b>				
Employment Protection Legislation (regular contracts)	Reduce (youth)	Increase	Increase (youth)	<b>Reduce</b>
Product Market Regulation	Reduce (youth and prime-age women)	Increase	Increase (youth and prime-age women)	Reduce
<b>Increase in:</b>				
Short-time work schemes participation	Reduce <sup>1</sup>	<b>Reduce</b>	Reduce	—

1. This favourable assessment relies on the premise that short-time work schemes are implemented on a *temporary* basis, in the context of a downturn.

Source: de Serres, Murtin and de la Maisonnette (2011).

# Impacts of Policies on Unemployment

	Timing	Budgetary cost	Social protection / Labour force participation
Reduce initial replacement rate	Rapid	Negative	Reduce
Shorten benefit duration	Rapid	Negative	Reduce
Increase spending on PES	Fairly rapid	High	Improve
Create public sector jobs	Fairly rapid	High	Unclear (risk of strong displacement effect)
Expand training programmes	Fairly rapid	High	Improve
Reduce labour taxation	Rapid	Potentially high	Neutral
Ease EPL on regular contracts	Fairly Slow / Medium term	None unless accompanied by stronger UI benefits	Improve if help reduce duality
Reform wage bargaining	Slow / long-term	None	Improve if reduce insider- outsider divide
Phasing out subsidies to short-term working schemes	Rapid	Negative	Reduce if jobs prospects remain bleak

Source: de Serres, Murtin and de la Maisonnette (2011).

# Discussions

- ✓ Structural shift and migration of the lower value-added industries to other Asian economies appeared to have worsen the employment prospect in Taipei, but there is a silver-lining
- ✓ Moving production operations to our neighbours has at the same time, increase welfare gain
- ✓ There is now increased tourists to Taipei, this has helped to transform Taipei's service sector
- ✓ Increase domestic economic activities has helped to absorb the structural unemployed



**Thank You**