

Unemployment Insurance in East Asian Economies

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UI can be introduced without high level of industrialization

- UI is considered to be a “luxurious good” in developed economies. But, in East Asian economies, the incidence of UI is neither related to per capita GDP nor to the share of agricultural sector, suggesting that UI can be successfully introduced without high level of industrialization.

OECD-style UI program is unlikely to function well in developing economies

- To be eligible for UI benefits, the applicants must be *unemployed* in OECD-style UI program.
- The enforcement of this standard continuing eligibility condition, if applied to developing economies, would hamper self-protection by taking informal jobs or working as underemployed.
- The monitoring of the eligibility conditions would be too costly, given weak administrative capacity in developing economies.

A Successful Example: the Case of Thailand

(1) *(Virtual) Exemption of informal sector work from disqualifying conditions for continuing eligibility*

- The dismissed workers can continue to get unemployment benefits (UB) even after they start working in the informal sectors, though formally they are disqualified to receive UB.

(2) *Modest unemployment benefits with low premium rate*

- By making the duration shorter and the amount smaller, UI can maintain surpluses even with a low contribution rate (0.5% for both employees and employers).
- Many UB recipients do part-time jobs in the informal sector. Thus, even with modest UB they can continue to look for a decent job in the formal sector. Moreover, small amount and short duration of UB give workers a strong incentive to search for a new job.

New Challenges for Developed Economies (Chinese Taipei, Korea, Japan)

(1) More Safety Net for Non-regular Workers

With growing number of non-regular workers, efforts are being made to cover these vulnerable workers and to extend the maximum duration of benefits in some cases to provide better safety net for such workers.

(2) Assistance for the non-insured such as the first entry young unemployed workers without insurance record

With growing number of the non-insured workers reflecting labor market slack and structural changes, social assistance is needed to help the non-insured such as young unemployed who cannot find jobs after their graduation of schools.

Concluding Remarks

- The evidence in this research suggests that UI can be successfully introduced in East Asian economies without high level of industrialization, if it is adequately implemented.
- The period of recovery from an economic crisis is a good timing to introduce or to improve UI as people have vivid memory of the social pain.
- These efforts will certainly enhance the social resilience in this region.