Employment Structure and Unemployment Insurance in East Asia:  
A Strategy to Establish Social Protection for All Workers

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1. Why We Need Unemployment Insurance for East Asia

East Asian economies have deepened their economic interdependence over the past few decades. Recent free trade agreements and economic partnership agreements among economies help confirm market integration in the region. As Stiglitz (2001: x) points out, “free international trade allows a country to take advantage of its comparative advantage, increasing incomes on average, though it may cost some individuals their jobs.” Free trade may bring about social instability through unemployment, in parallel with economic prosperity.

Social instability brought about by unemployment is not merely a domestic problem; it is also a region-wide issue, for domestic social tension can easily lead to international tension. Polanyi (1944: 219) writes that “the strain which sprang from unemployment might induce foreign tension. In the case of a weak country this had sometimes the gravest consequences for its international position. Its status deteriorated, its rights were disregarded, foreign control was foisted upon it, its national aspirations were foiled. In the case of strong states the pressure might be deflected into a scramble for foreign markets, colonies, zones of influence, and other forms of imperialist rivalry.”

Each government is responsible for coping with social instability, not just for domestic integration but also for improving the sustainability of regional economic cooperation. Moreover, it is not just each government but also the region as a whole that is responsible for addressing the issue. Unemployment insurance and related schemes will comprise some of the essential points of the discussion.

In the following sections, I will examine the theoretical definition of “unemployment” (Section 2). Then, I will go through related schemes and argue that unemployment insurance is the best among them and an essential part of a social protection system (Section 3). After glancing through the characteristics of labor markets in East Asia (Section 4), I will explore why some economies have unemployment insurance while others do not (Section 5). I will concentrate my analysis on 11 economies, without excluding other economies in the region from the discussion. I will also evaluate the existing unemployment insurance schemes and point

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out their inadequacies, especially in terms of coverage (Section 6). In the conclusion (Section 7), I will stress the importance of regional cooperation in upgrading social protection systems.

2. A Theory of Unemployment

What does the term “unemployment” mean? As a real-world issue, how should we cope with it? Okochi (1952), the leading social policy scholar in postwar Japan, provides a good starting point. His perspective covers both developed and developing economies, for when he wrote his theory, Japan was a developing economy that was on the verge of experiencing a high-growth era. He stressed three aspects of the concept of unemployment.

First, unemployment denotes that a worker who does not have his own means of production has lost his workplace. If he has his own workshop, land, or store, he cannot be unemployed. In such a case, if that worker cannot earn enough money to live, he is called “poor” or “underemployed,” but he is not “unemployed” in a precise sense (ibid.: 9).

Second, the idea of unemployment presumes that the unemployed worker retains his willingness to work. It implies that he shares a characteristic of modern wage workers that Weber calls “the spirit of capitalism.” Such a worker should not be idle and should make every effort to earn his own bread (ibid.: 12).

Third, if a worker cannot find a job that suits his skill or ability set, it can be said that he is “unemployed.” In economies where unemployment insurance is inadequate, dismissed workers may be ready to accept whatever job is possible. If they get a new job that is not appropriate to their skills, however, it is a kind of unemployment, in the sense that they are misallocated from the viewpoint of the efficiency of the whole of industrial society (ibid.: 16).

How do these three points relate to our current issue? The first point suggests that only employed workers can be unemployed. Self-employed workers such as farmers or petty traders cannot, by definition, be unemployed. Their problems related to poverty or underemployment cannot be solved with unemployment insurance. Other measures such as industrial policy or education policy should be put in place to improve their lives. Even in this case, however, unemployment insurance can reduce the uncertainty of wage workers at least. Of course, it requires great effort to cover wage workers in the informal economy (ILO 2007).

The second point reminds us of discouraged workers. In developing economies, dismissed workers may go back to their home village and join the family business as unpaid workers. As such, they may not appear to be unemployed. Even in developed economies, dismissed female workers and older workers are sometimes discouraged from seeking a new job; instead, they rely on their families. For these people, active labor market policies such as training programs are more suitable than unemployment insurance.

The third point implies a merit of unemployment insurance. If there is an adequate unemployment insurance scheme in place, dismissed workers can retain their skills until they find a suitable job that makes use of their abilities. If their skills are outdated, they can undergo training to acquire new skills that are suited to their abilities. In either case, unemployment insurance is helpful for the unemployed in maintaining or upgrading their skills; this is good not just for them but also for the efficiency of the whole of an industrial society.
3. Unemployment Insurance and Its Related Schemes

Besides unemployment insurance, other compensation schemes related to unemployment are severance pay, unemployment insurance savings accounts, unemployment assistance, and work programs (Vodopivec 2004, Berg and Salerno 2008: 81).

*Severance pay* is a benefit paid by the employer to the employee upon termination of the employment contract (ibid.). If all employers were honest and generous when dismissing employees, the function of severance pay would be similar to unemployment insurance. In reality, however, the employer of a bankrupt company may run away without offering severance pay to employees. Nonetheless, it is better than nothing. Economies like Malaysia, the Philippines, and Indonesia, neither of which have unemployment insurance, mandate severance pay (ILO 2010, Asher and Mukhopadhaya 2004).

*Unemployment insurance savings accounts* are private savings accounts that workers can draw on in the case of job loss (Berg and Salerno 2008: 81). They contain no risk-pooling mechanism. They are not very helpful for the most vulnerable of the unemployed, that is, those who have not accumulated sufficient savings prior to becoming unemployed (ibid.). Several Latin American economies (Brazil, Argentina, Chile, Colombia, Ecuador, Panama, Peru, Uruguay and Venezuela) have introduced this type of scheme (Vodopivec 2004: 40).

*Unemployment assistance* is a means-tested benefit program that helps workers in greatest need (Berg and Salerno 2008: 81). Australia and New Zealand have developed this type of scheme, instead of unemployment insurance (Palme et al. 2010). Economies such as Germany use this type of scheme to support job seekers who cannot receive benefits from unemployment insurance (Toda 2010). In Japan, it has been discussed to introduce it as a second-tier safety net between unemployment insurance and social assistance in supporting job seekers (Hamaguchi 2010).

*Work programs* also self-select from the neediest groups by paying wages that are at or below the minimum wage in exchange for public work, such as building roads, schools and clinics (Berg and Salerno 2008: 82). When combined with skills training, such programs resemble those enacted by active labor market policies.

Among these four schemes, the first two are meager alternatives to unemployment insurance; the latter two are complements rather than alternatives to unemployment insurance. After all, unemployment insurance is an essential part of social protection systems in protecting unemployed workers.

4. Varieties of Labor Markets in East Asia

Before examining unemployment insurance, we should outline the varieties of labor markets in East Asia. There are similarities as well as differences in this respect among East Asian economies. The most striking similarity is that they have maintained low unemployment rates until recently. The most salient differences concern each economy’s economic level and the sector-based structure of its labor market. If you apply convergence theory, however, it can be interpreted that each economy is proceeding on the same road, but is currently at a different point. On the other hand, some divergent characteristics in each labor market, such as those pertaining to the employment rates of young mothers and the elderly, cannot be explained by convergence theory.
Figure 1 compares the unemployment rates before and after the Asian economic crisis of 1997–98. Before the crisis, most economies other than the Philippines and Malaysia had achieved nearly full employment. After the crisis, most economies other than Malaysia, Thailand, and Vietnam experienced a rise in unemployment. Of course, we should be careful with the different definitions of unemployment in each economy. For example, the unemployment rate in Thailand is a figure that excludes the “seasonally inactive labor force”; this workforce component becomes sizeable during the agricultural off-season. On the other hand, the unemployment rate in Indonesia after 2000 includes discouraged workers (Dhanani et al. 2009: 54). Obviously, Thailand’s rate is underestimated, while that of Indonesia is overestimated. In any case, the unemployment problem in East Asia has emerged since the economic crisis.

Data Source: ILO, *Key Indicators of the Labour Market*
The significance of unemployment, however, varies depending on the sector-based structure of each economy. In agrarian economies, underemployment and poverty rather than unemployment may be the central problems, whereas industrial economies likely have many workers who need traditional types of unemployment insurance. In post-industrial economies, the scheme should bear the characteristics of active labor market policy that make it suitable for the knowledge economy. As figure 2 shows, while there are some post-industrial economies in the region, such as Japan, Korea, and Chinese Taipei, most East Asian economies seem to still be in the industrialization process. (Black dots represent East Asian economies; white dots, as a reference, represent EU member countries. Chinese provinces are represented by “+.” Here I would like to stress China’s internal disparities.) Some of the coastal provinces of China, such as Zhejiang, Jiangsu, and Tianjin, seem to be at the peak of the industrial stage and are worthy of the name “Workshop of the World” (Kamimura 2010: 90). Thus, it is time to introduce or strengthen unemployment insurance in such economies.
Figure 3: Different labor-market structures


Figure 3 illustrates that there are certain people who work as employees, even in largely agrarian economies such as Vietnam. Of course, sector-based distribution varies from economy to economy. It is difficult to introduce unemployment insurance for self-employed workers or unpaid family workers; however, even in economies where the agricultural sector dominates, there are certain unemployment insurance needs.

It is worth noting here that, to date, there is a dearth of comparative study into labor markets in East Asia, at least upon which social policy arguments can be based. Figure 4 suggests that there are different types of labor markets in East Asia. Differences here cannot be explained away by economic levels or by any other single factor. This kind of divergence requires further investigation.
5. Structure Does Not Explain the Lack of Unemployment Insurance

There are economies that have unemployment insurance schemes: Japan, Chinese Taipei, Korea, Thailand, China, and Vietnam. There are also economies that do not have unemployment insurance schemes: Hong Kong (China), Singapore, Malaysia, the Philippines, and Indonesia. What explains the differences between them? The purpose of the following analysis is not to criticize the latter set of economies; every economy has its own philosophy and measures to cope with unemployment. I would like to suggest, however, that sharing experiences among economies is useful in removing misunderstandings concerning structural barriers to the introduction of unemployment insurance schemes.
Figure 5: Economic level does not matter


Some people believe that only rich economies can afford unemployment insurance. That is not the case, however. Figure 5 compares the economic levels of economies that have unemployment insurance (white bars) and those that do not (black bars). Both sets include rich and not-so-rich economies. Obviously, one cannot conclude that economic level matters with regard to unemployment insurance provisions.

Some people may worry that unemployment insurance discourages the unemployed from searching for work and eventually increases the overall unemployment rate. This is not the case in East Asia, however. Figure 6 shows that unemployment rates in economies that have unemployment insurance are not necessarily higher than those in economies that do not. Note that the high rate in Indonesia and the low rate in Thailand are due to different definitions of “unemployment” in each economy, as discussed.
Some people may think that agrarian economies like Indonesia and the Philippines do not need unemployment insurance, for two reasons. One is that self-employed farmers do not need unemployment insurance if they have their own land; the other is that dismissed workers in agrarian economies can go back to their home village and rely on their family. As discussed in previously, however, there are employees even in agrarian economies, and not all dismissed workers can rely upon their family. Figure 7 shows that some agrarian economies like Vietnam, Thailand, and China have already introduced unemployment insurance. Moreover, Japan was a highly agrarian economy when it introduced unemployment insurance in 1947. Thus, the size of an economy’s agricultural sector is not a structural barrier to its introduction of unemployment insurance.

To conclude, structural barriers do not interfere with the introduction of unemployment insurance. Whether or not unemployment insurance is feasible depends upon an economy’s philosophy and political leadership, rather than its structural conditions.

6. Existing Unemployment Insurance Is Not Necessarily Effective

How do existing unemployment insurance schemes function in Japan, Chinese Taipei, Korea, Thailand, China, and Vietnam? Are the existing schemes effective, especially in terms of coverage? Comparisons make it possible to detect and improve weak points in each economy.

General Description

As Table 1 shows, Japan introduced unemployment insurance relatively early, as part of postwar reforms. China introduced it following the start of economic reforms. Korea and Chinese Taipei each introduced it after democratization, and Thailand and Vietnam each introduced it only recently.

Table 1: Unemployment insurance in East Asian economies

<table>
<thead>
<tr>
<th>First implementation (Current law)</th>
<th>Japan</th>
<th>China</th>
<th>Korea</th>
<th>Chinese Taipei</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Type of program</th>
<th>Japan</th>
<th>China</th>
<th>Korea</th>
<th>Chinese Taipei</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social insurance</td>
<td>Local government-administered social insurance</td>
<td>Social insurance</td>
<td>Social insurance</td>
<td>Social insurance</td>
<td>Social insurance</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Covered persons</th>
<th>Japan</th>
<th>China</th>
<th>Korea</th>
<th>Chinese Taipei</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Employees of urban enterprises and institutions</td>
<td>Employees</td>
<td>Employees</td>
<td>Employees</td>
<td>Employees</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Qualifying conditions</th>
<th>Japan</th>
<th>China</th>
<th>Korea</th>
<th>Chinese Taipei</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 months of insurance during the last 24 months.</td>
<td>12 months of insurance; must be involuntarily unemployed</td>
<td>6 months of insurance during the last 18 months; must be involuntarily unemployed</td>
<td>12 months of insurance; must be involuntarily unemployed</td>
<td>6 months of insurance during the last 15 months.</td>
<td>12 months of insurance during the last 24 months.</td>
<td></td>
</tr>
</tbody>
</table>

Data Source: International Social Security Association, Social Security Country Profiles (www.issa.int/aiss/Observatory)

Unlike the schemes in the other economies studied, unemployment insurance in China is run by local governments, and only employees of urban enterprises are covered. Okochi’s aforementioned theory of unemployment teaches us that unemployment insurance need not cover those who have their own means of production. Farmers who have their own land need not be covered, for example. Employees who work in rural areas, however, should be covered under a certain scheme.

In each of China, Korea, and Chinese Taipei, benefits are provided only to those who are “involuntarily unemployed.” The differences between “voluntary” and “involuntary” unemployment are not clear, however; it is difficult to generate a precise demarcation between the two categories. It is therefore advisable to include both categories of unemployed workers in the scheme.

**Contributions and Benefits**

As table 2 indicates, contribution rates vary among economies. The highest two are those of China and Vietnam, the two socialist economies in the study sample, while the lowest is that of Chinese Taipei. Table 3 shows the benefits; the benefit rate in most economies is proportional to the former average earnings of the unemployed, while in China it is a flat rate that is determined by the local government. The duration of benefits in China is longer than in the other economies.
Table 2: Contributors to unemployment insurance

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>China</th>
<th>Korea</th>
<th>Chinese Taipei</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>0.5%</td>
<td>1.0%</td>
<td>0.45%</td>
<td>0.2%</td>
<td>0.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Employer</td>
<td>0.9%</td>
<td>2.0%</td>
<td>0.7~1.3%</td>
<td>0.7%</td>
<td>0.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Government Subsidies</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>0.1%</td>
<td>0.25%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Data Source: International Social Security Association, Social Security Country Profiles (www.issa.int/aiss/Observatory)

Table 3: Unemployment insurance benefits

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>China</th>
<th>Korea</th>
<th>Chinese Taipei</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>The amount of benefit</td>
<td>50 to 80% of the insured’s average daily wage; The minimum daily benefit is 1,656 yen. The maximum daily benefit is 7,775 yen.</td>
<td>Higher than the local public assistance benefit but lower than the local minimum wage.</td>
<td>50% of the insured’s average daily earnings. The minimum daily benefit is 22,320 won. The maximum daily benefit is 40,000 won.</td>
<td>60% of the insured’s average monthly earnings.</td>
<td>50% of the insured’s average daily wage for the involuntarily unemployed, 30% of the insured’s average daily wage for the voluntarily unemployed. The maximum daily benefit is 250 baht.</td>
<td>60% of the insured’s average monthly earnings.</td>
</tr>
<tr>
<td>The duration of benefit</td>
<td>3 to 11 months</td>
<td>12 to 24 months</td>
<td>3 to 8 months</td>
<td>6 months</td>
<td>6 months in any 1 year for the involuntarily unemployed, 3 months in any 1 year for the voluntarily unemployed.</td>
<td>3 to 12 months.</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>US$1.00 = 105.52yen.</td>
<td>US$1.00 = 6.94yuan.</td>
<td>US$1.00 = 1028.50won.</td>
<td>US$1.00 = 30.40NT$.</td>
<td>US$1.00 = 38.49baht.</td>
<td>US$1.00 = 16,245dong.</td>
</tr>
</tbody>
</table>

Data Source: International Social Security Association, Social Security Country Profiles (www.issa.int/aiss/Observatory)

**Legal and Effective Coverage**

The most important matter with respect to unemployment insurance schemes is how many people are protected from the economic uncertainty caused by unemployment. Table 4 reveals the real function of each scheme. *Legal Coverage* refers to the ratio of insured persons as a percentage of the total labor force (Scholz et al. 2010: 345). Rates vary from economy to economy; the highest is that of Japan, while the lowest two are those of Vietnam and Thailand.

It is misleading, however, to conclude that unemployment insurance in these latter two economies is not useful. As shown earlier, Vietnam and Thailand each has a large agricultural sector, and so there are many self-employed workers for whom unemployment insurance would not be suitable. If we take the ratio of insured persons to all employees (i.e., *Covered Employees*), there we find an unexpected proximity: the rates of Vietnam and Thailand are almost similar to that of Korea. We can guess that the schemes of these economies have a significant role in the formal sector, at least.
Table 4: Unemployment insurance coverage

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>China</th>
<th>Korea</th>
<th>Chinese Taipei</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Coverage</td>
<td>56.1%</td>
<td>4.7~54.4%</td>
<td>38.5%</td>
<td>49.9%</td>
<td>24.4%</td>
<td>11.8%</td>
</tr>
<tr>
<td>(Insured/Labor force)</td>
<td></td>
<td>(varies among provinces)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covered Employees</td>
<td>64.3%</td>
<td>NA</td>
<td>56.0%</td>
<td>65.0%</td>
<td>54.8%</td>
<td>52.3%</td>
</tr>
<tr>
<td>(Insured/Employees)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective Coverage</td>
<td>22.9%</td>
<td>11.7~74.2%</td>
<td>NA</td>
<td>23.7%</td>
<td>6.7~17.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>(Beneficiary/Unemployed)</td>
<td></td>
<td>(varies among provinces)</td>
<td></td>
<td></td>
<td>(varies among months)</td>
<td></td>
</tr>
</tbody>
</table>

Data Sources: Calculated by the author based on national statistics (2007 for China, 2008 for other countries).
For the rates of Thailand, I am grateful to Professor Yasuhito Asami for providing the data.

When it comes to *Effective Coverage*, which is the ratio of the beneficiaries to all those unemployed (ibid.), the picture changes. Rates are quite low across all the economies studied. Compared to other advanced economies, even the rates of Chinese Taipei and Japan are ranked at the bottom. The rates of European economies such as the United Kingdom, France, and Sweden are above 50%, and Germany’s rate is almost 100% (Scholz et al. 2010: 349).

Goishi (2009) points out that the decline in effective coverage in Japan can be explained by increases in non-regular employment and long-term unemployment in that economy. Moreover, there are some vulnerable groups such as young workers who are not effectively covered by the existing scheme. As figure 8 shows, more than half of young workers in Japan, Korea, and Chinese Taipei are legally covered by unemployment insurance. As figure 9 reveals, however, their effective coverage in Japan and Chinese Taipei (possibly in Korea also) is quite low. Unemployment insurance in these economies is inadequate for coping with current “youth problems” (Kamimura 2011).
Figure 8: More than half of young workers are legally covered

Figure 9: Young workers are not always covered effectively


Here it is appropriate to note diversities in legal and effective coverage among the provinces of China. As figure 10 shows, while the legal coverage (horizontal axis) is lower than 30% in most provinces, the effective coverage (vertical axis) varies widely among the provinces. One may guess that, in some provinces with high effective coverage, unemployment insurance is a kind of privilege for the former employees of state enterprises. If this is true, Chinese unemployment insurance also seems inadequate for supporting those who truly need help.

7. Conclusion

There are two conclusions. First, it is possible for Hong Kong (China), Singapore, Malaysia, the Philippines, and Indonesia to consider introducing unemployment insurance or strengthening other schemes that would suit their situation. As noted above, the choices that each economy makes depend upon the economy’s philosophy and political leadership rather than structural conditions. The economies that already have unemployment insurance can provide technical cooperation. Unilateral assistance is, however, inappropriate in an era of regional cooperation. Each economy can freely draw lessons that are learned
through comparative study. It is useful to compare the merits and demerits of relatively advanced systems of Japan, Korea, and Chinese Taipei as well as to learn from the experiences of economies with similar labor market structures. For example, it is advisable for Indonesia to investigate the policies and practices of Thailand if it is looking to introduce an unemployment insurance scheme.

Second, for economies that already have unemployment insurance, it is recommended that they reform the schemes that cover people who really need social protection. The most important challenge is to increase the effective coverage of unemployment insurance. It is advisable to extend legal coverage to non-regular workers, and it is also worth considering a combination of unemployment insurance with an unemployment assistance scheme. The problems that Japan, Korea, and Chinese Taipei face are not totally different; these economies can compete with each other in proposing policies to increase effective coverage, and in developing active labor market policies. Such competition would be beneficial not only for the economies involved but also for other economies. To promote policy innovation, it is essential to compile comparable and longitudinal data; for this purpose, it is expected that a regional statistical office such as StatsAPEC (http://statistics.apec.org/) will be upgraded to the level of the Eurostat in the EU.

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www.ilo.org/dyn/terminate/termdisplay.severancePay


