



## Education for Recovery

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Good morning, distinguished guests, ladies and gentlemen. It's a great honor to attend this forum. My discussions on this topic will be divided into four parts. In the first part, I'll address the impacts of global financial storm on Taiwan's economy and related unemployment problem. Secondly, I will discuss Taiwan's policy measures to solve the unemployment problem. Thirdly, I will point out some directions of improvement for these employment promotion programs. Finally, I will provide some policy recommendations regarding education and manpower training to speed up economic recovery.

### **I. The impact of the financial crisis on Taiwan's economy and employment**

The current global financial crisis has exposed the vulnerabilities of Taiwan's trading and industrial structures. Firstly, the manufacturing sector is concentrated in the electronics and information industry, chemical products and metal. These products manufacturing industries, which are export-oriented, account for more than 60% of the total GDP. With the financial turmoil, which has contributed to the considerable diminishing of wealth, products with high income elasticity have experienced a tremendous impact. Secondly, Taiwan's exports account for 64% of its total GDP. With declining income around the world, the demand for imported goods has shrunk, and Taiwan's economy has suffered. Thirdly, 40% of all exports is concentrated in the mainland China market.

Taiwan's exports fell 35% on average for the first two months of 2009. In particular, companies in the export-oriented IT industry (many of which are OEM electronics manufacturers) have been severely affected. There has also been an increase in layoffs or reduced workdays (e.g. 3 or 4 days of unpaid leave for every week), and a sharp rise in the number of unemployed.

In addition to the financial crisis, the rapid expansion of higher education in Taiwan has also exacerbated the problem of unemployment among citizens with college degree or above. According to the statistics of Ministry of Education, between 1998 and 2007 the number of universities doubled, and the number of students grew from 314,499 to 987,914, which represents a 17.8% average annual rate increase. Such rapid expansion has allowed Taiwan to exceed many other countries in terms of the number of institutions of higher education. In 2006, Taiwan's gross enrollment rate was 83.58%, and ranked second only to South Korea.

Although the expansion of higher education in Taiwan improves the quality of the labor force, from the statistics mentioned earlier, the employment situation of domestic university graduates is in fact worsening. One possible reason is that while in general there has been an increase in academic achievement, Taiwan's economic structure has not kept up, and thus is unable to create sufficient high-end job opportunities to accommodate these highly educated persons.

Another possible reason for the serious unemployment problem facing Taiwanese university graduates is that the curriculums of the universities do not match the requirements of the industries. Coupled with the general decline of students' willingness and ability to learn, the end result is that university graduates are

unable to meet the needs of companies, and a serious imbalance exists between the supply and demand of domestic human resources with post-secondary education.

## **II. Taiwan's policy measures to tackle the unemployment problem**

To revitalize and promote employment, Taiwan government enacted four major programs, which are : helping reduce layoffs, creating new jobs, expanding domestic demand and caring for the disadvantaged. I'll address some of the key policies under these four programs.

First, **"Immediately on job plan"** : In this plan, private enterprises will be subsidized the payroll for \$10,000 N.T.(equivalent to \$300) per worker per month, if the company hired people who have been unemployed more than 3 months. The subsidy will be up to 6 months. So far, more than 10 thousand people are benefitted from this plan.

**Second, value-added training plan:** this plan targeted on no-pay leave workers for the start-up enterprises and non-governmental organizations. Government subsidizes enterprises the cost of vocational training up to \$10,000 N.T. per worker for 6 months.

**Third, short term practical training for college graduated students plan :** Sending young college graduates to enterprises or institutions, NGO for internship, the government will pay a monthly salary of 22,000 N.T., with a quota of 35 thousand people.

**Fourth, "to cultivate high quality manpower to promote employment" plan :** There are two major purposes of this plan: First, to encourage universities

and research institutions to do joint research. Second, in the joint research, universities and institutions must recruit and nurture college research talents. This plan is expected to recruit 2,450 of unemployed manpower.

**Fifth, manpower training tax credit:** in the newly drafted Industry Innovation Act, government proposed that enterprises manpower training expenditure can enjoy tax deduction from corporate taxes( preferential tax rate up to 30%)

### **III. Directions of improvement for Taiwan's employment promotion programs**

Even though government's efforts did stabilize and stop the unemployment rate further deteriorating, and the collaborative relationship between firm and academic circle is getting closer. However, there are some rooms for improvement. Therefore, in this section, I would like to make some comments on the above plan.

#### **1. The major factors for Taiwan's unemployment are not only cyclical or frictional, but structural.**

Expanding domestic demand can only increase short-term labor demand, and solve cyclical unemployment problem. However, structural unemployment is a long-term phenomenon, the key to cure structural unemployment is to strengthen manpower training and related investment.

#### **2. Uneven industrial structure need to be balanced.**

In the past, development of high-tech industry has been the government's main objectives, their approach is to allocate resources to foster a small number of strategic industry. In fact, since there are still many domestic traditional industries in the international arena is not only highly competitive, but also creates diverse employment opportunities, such as precision machinery, metal casting. However, these traditional industries currently facing a serious shortage of personnel; the main reason is the decline of vocational education system, while university graduates are unwilling to enter these sectors. As a consequence, to revitalize traditional industries, to broaden the domestic industrial structure, so that industry can do to promote employment and closer integration.

**3. The incentive of lower-educational level workers to participate vocational training program is considerably low, therefore, most training programs only benefit for high educational level workers and large enterprises.**

According to the survey, the ability and incentives of domestic medium and large enterprises to initiate and organize training program is better than small businesses. In the meantime, workers with higher education are more aggressively to take part in training program than those of low education level. Under such circumstances, the beneficiaries of government training resources are mostly large, medium-sized enterprises and high education level workers. Consequently, unless government make the low educational level people and small and medium-sized to place more importance of vocational training, or even government put more resources in the vocational training cannot help people who really need help. And as a result, it will lead to the deterioration of income distribution.

**4. Focus too much on hard infrastructure, rather than on soft infrastructure.**

In China's experience, the contribution of public infrastructure to GDP was about 50% in 1990, however, the same index dropped to 16.7 percent in year 2007. Therefore, how to design some creative, soft infrastructure to complement the hard infrastructure, deserves more attention.

**5. It is an urgent need to de-regulate Taiwan's job market restriction.**

- Comparing with Japan, South Korea, Singapore and other countries, Taiwan's unemployment rate is relatively high. One of the reasons is Taiwan's lack of flexibility in the labor market. The proportion of non-typical employment in Taiwan is only 1.9%, far below than 44.4 percent in Korea, and Japan's 14%.

**IV. Policy recommendations**

**1. Through government investments and public policies, investing in talent cultivation, R&D and education can be sustained in order to continue the momentum of economic growth and accelerate the recovery.**

**2. Short-term employment stimulation policies must observe market mechanisms and not undermine long-term competitiveness**

Employment promotion plans must still take into account the productivity of labor. It is not advisable to create activities that have little effect in raising productivity for the sole purpose of achieving short-term employment goals, which is a waste of government resources and may have a negative impact

on the adjustment of industrial structure, the long-term competitiveness of the industry and employment opportunities.

Furthermore, influenced by the financial storm, educational investment in USA, EU countries declines. Universities cut their scholarship for developing countries' students, either because of budget constraint, bad investment or decreasing donations, which will have negative impact on foreign manpower introduction and long-term industrial competitiveness.

### **3. One must first understand the nature and cause of the unemployment problem so that appropriate policies can be devised to tackle it.**

Boosting domestic consumption will undoubtedly increase short-term employment opportunities, yet it will not solve structural unemployment problems. Solving unemployment of a structural nature nevertheless requires training, investment in human resources and a solid understanding of future industry trends.

### **4. Education and employment policies should be integrated more closely with industrial development**

The development of industries in science and technology has been a consistent objective of the government in the past. Today, the impact of the financial crisis will certainly force a change in this overly narrow industrial policy. In fact, many domestic traditional industries remain highly competitive in the international arena, which help to create diverse employment opportunities. Therefore, in order to solve the oversupply problem of university graduates and to revitalize traditional industries, we should broaden the domestic industrial structure so that the goals of industrial growth and sufficient employment can be more tightly combined.

## **5. Strengthening the vocational training system and raising the willingness of workers to participate in enterprise training programs**

For a long time, the greatest problem with Taiwan's vocational training has been the declining willingness of workers to take part in enterprise training programs. Even with the many incentives provided by the government in recent years, the situation has not yet improved.

Therefore, this study recommends that the relevant government departments should be actively engaged in building a digital teaching environment, using advanced communications technology to allow workers to participate in training courses through the Internet during work or when searching for jobs. A further factor is whether or not an enterprise has the ability to provide training. Therefore, if the government wants to effectively raise the willingness of enterprises to provide training, it is desirable to offer grants combined with technology projects, central-satellite systems or other channels to guide the enterprises in upgrading their technologies, as well as to understand the development of future industry trends, so that the enterprises will be properly motivated to provide education and training to their employees to raise their work quality.

## **6. Soft infrastructure is more important than hard infrastructure in education**

E-teaching environments, recruitment and employment of high-quality instructors, subsidies for low-income families and the availability of training programs are far more important than establishing new schools, renovation or providing equipment. They are also more effective in the nurturing of human resources and for the recovery of the economy in the future.

## **7. Setting a vision for future industrial development to facilitate the planning and implementation of talent nurturing.**

- Medium and long-term employment policies to meet the development of emerging industries

These include cultural and creative industries, the green energy industry, biotechnology, medical care, tourism and fine agriculture.

- Reorganize university courses to include one year of employment-related training in senior year for those who have no intention of furthering their education.
- Revitalize technical and vocational education systems, and inject additional resources to improve the quality of education.
- Adjust self-administered and outsourced training programs in government agencies. Increase the number of forward-looking and high-level training courses in the service industries in order to keep up with the trends of industrial development and fit the needs of enterprises.

## **8. Combining innovation and creativity infrastructures to create employment opportunities and enhance the industries' competitiveness**

Australia's fiber-optic project, South Korea's new green policies and the alternative energy policy in the U.S. have not engaged in infrastructure projects for the sole purpose of creating employment opportunities. The greater aim is to increase the countries' long-term competitiveness, and other countries would do well to take a closer look into these projects.