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Social Protection in East Asia

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Economic Crisis and Social Policy Responses in East Asia

The welfare states in many East Asian countries have evolved over the past 40 years from a bare structure with a minimal number of programmes into fairly comprehensive systems.[1] During this time, they have acquired distinctive characteristics. One of the important rationales for social policy in the East Asian region was 'welfare developmentalism', which saw social policy as an instrument for economic development (Goodman and White, 1998). In fact, social policy did indeed prove to be one of the most effective policy instruments during the period of rapid economic growth in countries such as Japan, South Korea, Taiwan and Singapore.

A second dimension often identified as a core feature of East Asian welfare states is the notion of Confucian familism, involving 'a strong reliance on the family as the site of social welfare and service delivery' (Goodman and Peng, 1996: 193). Social arrangements were based on the assumption of the family as the main provider of care. The traditional image of the family was of a unit composed of three generations where household work, including homemaking and care-giving, was produced by 'housewives'. This approach was endorsed by the Japanese and the Korean governments in the 1980s, and more recently a similar revival of attention to their Confucian cultural heritage is seen in China and Vietnam.

The weaknesses of this approach, based on a narrowly growth-focused state system combined with a heavy reliance on family or informal support networks, were painfully exposed during the Asian crisis of the late 1990s. Those groups who were vulnerable to economic shocks fell largely outside the protection of the welfare state and were unable to get assistance from the state in times of need. Social protection through informal arrangements such as family and informal networks did not work well, since the poorest tended to have equally poor family members and networks (Kwon, 2001). More importantly, the 'traditional' family, which was still regarded as

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the main source of welfare, had become the exception; instead, new family forms, such as nuclear, single parents with small children and elderly-only families are now more typical.

In response to the social and economic crises of 1997–8, many East Asian countries have subsequently strengthened their welfare states and expanded their social protection interventions. Such experience counters the argument that the welfare state will have only marginal importance in the globalizing world. On the contrary social policy has been used as an effective instrument for economic recovery while providing social protection to the more vulnerable people in society (Gough, 2001; Kwon, 1999, 2005). In Korea and Taiwan, for example, unemployment insurance schemes and comprehensive social protection for the poor, which governments had previously resisted strongly, were introduced at this time. In this context, one of the most difficult challenges currently facing countries in East Asia is how to maintain the developmental credentials of social policy while strengthening social protection.

Social Protection in Low-Income East Asian Countries

It is, however, necessary to remember that there is a huge gap between countries in East Asia in terms of economic and social development. The region includes countries ranked among the world's wealthiest (Japan) and poorest (e.g. North Korea and Cambodia). Hong Kong's per capita GNI has reached US$27,600 while Vietnam's figure is US$520, Laos US$440 and Cambodia US$380. In terms of human development, the United Nations Development Programme (UNDP) Human Development Index indicates a huge discrepancy among East Asian countries: Hong Kong, Singapore and Korea are ranked between 20th and 26th while the Philippines, Indonesia and Vietnam are below the 80th. The region contains the world's most populous country alongside some of the smallest. There is also variation in the pace of structural transformation reflected in levels of urbanization and industrialization, and in the stage of demographic transition.

Compared to front-running Tiger economies, the low-income countries in East Asia have only a limited range of social protection programmes. In the Philippines and Indonesia, social policy institutions protect only a small number of people against a very limited range of social risks, although these are expanding: post-crisis Indonesia, for example, has developed a number of targeted support programmes, including rice and fuel subsidies, as well as recently introducing a new cash transfer programme. The poorest countries in the region – Laos and Cambodia – essentially lack formal social security mechanisms. In North Korea where the socialist social protection system has evaporated over the last three decades, millions of people have suffered starvation and chronic malnutrition.

Transition economies such as China and Vietnam highlight another dimension of East Asian social policy. China's liberalization since 1978 and

Vietnam's process of Renovation (*Doi Moi*) from 1986 have brought about remarkable economic growth that can match the economic miracles of the first generation of Asian Tigers. While these liberalizing policies brought about impressive improvements in growth as well as major reductions in poverty, inequality between regions, income groups and urban and rural areas has increased sharply. This trend worries top policy makers in both countries who fear that social unrest caused by such inequalities could derail reform and economic growth.

One important underlying cause of increasing inequality is the fact that new social protection mechanisms were not only inadequate in protecting the poor and the vulnerable, but also reinforced inequalities between those prospering in the new market economy and those failing to do so.

In both China and Vietnam, social protection traditionally relied on two institutions – the household and government. Under the socialist system, social protection was, in theory, the responsibility of the state; in practice, local collectives and communities were the main funders and providers of social services and income support. While the pre-reform system had its own limits and inequities, it explicitly sought to provide guaranteed employment, free education, subsidized food, and 'fairness' in terms of providing access to benefits for all sectors of society (Bach and Duong, 2006).

In China, the welfare system established in the 1950s has been dismantled slowly but steadily since the reforms began in the 1970s. The past decade in particular has seen a dramatic increase in the number of laid-off workers and unemployed, a reduction or loss of welfare benefits and services including pensions, health care, education and subsidized housing, and the emergence of urban poverty. Basic social services, particularly health and education, are now largely purchased privately and their cost has risen sharply. In rural areas, the social protection system remains fragmented, limited in scope and coverage, and reliant for funding principally on local resources (Cook, 2003).

Similarly in Vietnam under *Doi Moi*, social protection was partly 'societalized', meaning that the state withdrew from many of its functions, and individuals and families became largely responsible for their own provision: through contributions to insurance schemes or the payment of fees (including for health and education) at the point of delivery. Some steps were taken during this period to reform and extend the formal social security system: pensions and other employment related social benefits continued to cover civil servants and formal sector workers. For the majority of the population, however, the old social protection system has gone, but a new public system has not been put in place. Inequalities in access to basic services are particularly marked, with greater inequality in outcomes such as school enrolment, health care, child nutrition, life expectancy, unemployment and basic sanitation (Bach and Duong, 2006). Those who are unable to purchase basic services privately must rely on informal support mechanisms, which are unreliable for the poorest.

Two Strands of Welfare State Development in East Asia

In terms of institutional configurations, two different strands of welfare state development have emerged in East Asia: in the Northeast Asian countries such as Japan, South Korea and Taiwan the underpinning principle of the welfare state is social insurance with a strong aspiration to universalism; by contrast, in Singapore and Hong Kong, provident funds are the main anchor of the welfare state with a strong emphasis on public housing. This broad clustering does not always follow the line of sub-regions in East Asia. Thailand is a test case. Located in Southeast Asia, Thailand chose to extend and strengthen its social protection system with aspirations towards universalism as Korea and Taiwan had done after the economic crisis.

Prior to the crisis formal safety nets or social security schemes were extremely limited in Thailand. Unemployment and other benefits were restricted to only a minority of formal sector or government employees. Civil servants were covered by a pension scheme. Severance payments until 2001 covered only those formal workers employed over 3 years; social security coverage excluded those in small enterprises (under 10 people) or the self-employed. Apart from a small number of welfare programmes for some disadvantaged groups, the majority of the most vulnerable had to rely on informal or traditional family or community safety nets (Paitoonpong, 2000: 15). The crisis demonstrated the limits of relying on growth and rising incomes alone for protecting the population and sustaining welfare improvements. Following the crisis, the government first implemented a number of safety net programmes, partially supported by international donors, including a 'Social Investment Programme'. More significantly, it has subsequently moved towards an expansion of universal social protection programmes, with an increase in public expenditures on welfare.

Democratic politics, inter alia, can account for the strengthening of social protection in Thailand as in Korea and Taiwan. This is illustrated in particular by the 30 Baht Health Plan introduced in 2002 following the landslide victory in 2001 of the Thai Rak Thai Party led by Thaksin Shinawatra. Thaksin fought the election on a promise that his government would implement a policy of universal access to health care for 30 Baht a visit (Tangcharoensathien et al., 2005). Thailand also introduced unemployment benefits within the social security system in 2004. This was another bold step towards a more comprehensive welfare state, following the earlier expansion of the old age pension programme to all enterprises with one or more employees in 2002.

Pursuing universal access to social protection inevitably raises the question of financial sustainability of the welfare state. Many observers were initially concerned about the financing of the 30 Baht Health Plan, but it has not led to a major increase in overall health expenditures. Nevertheless, the proportion of the government share in total expenditures has increased, which has caused government concern (International Health Policy Programme, 2003).

At present, the Thai government plans to introduce a proportional co-payment system instead of the current flat rate one. The abrupt end of the Thaksin government in 2006, however, creates a challenge to the political sustainability of the Thai welfare state before it has been tested in terms of its financial sustainability. It remains to be seen whether the new government will maintain the same policy orientation in the sphere of social protection.

Global Social Policy in East Asia

The global dimension is also an important feature of social policy in East Asia. With respect to low-income East Asian countries, efforts to strengthen their social protection systems could be boosted by international cooperation with the developed countries. In East Asia, Japan is one of the biggest donors, and has played an important part in development assistance for poverty reduction and technical assistance along with other donors from Europe and North America. Korea, a newcomer in the donor community, increased its ODA size from 0.06 in 2001 to 0.1 of GNI in 2005, and plans to double this figure in the near future.

The increase in international migration within East Asia also raises the necessity of a region-wide social policy framework. Migrant workers, who are more vulnerable to economic downturns and often subject to abuse, often fall outside any social protection arrangements since welfare state entitlements are based primarily on citizenship. In order to protect this group, it is necessary to establish bilateral and multilateral agreements among East Asian countries, but regional frameworks such as ASEAN+3, and Asia–Pacific Economic Cooperation (APEC) have so far been lukewarm in their response to such initiatives. This is largely due to the principle of non-interference in other nations' domestic policy affairs, as social protection is seen as such an issue. Having said that, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Asian Development Bank are giving strong priority to poverty reduction and social protection while many civil society organizations in East Asia have promoted the idea of an East Asian Social Charter.

Overall, the welfare states in East Asian countries with the exception of Japan are not extensive either in their coverage of various social risks, or in terms of the population covered, compared to their European and North American counterparts. Nevertheless, the welfare states in the region have shown remarkable growth. This is mainly because of the important role social policy has played in the economic development of many East Asian countries, but at the same time, intrinsic goals of social policy, i.e. social protection and equity, have gained increasing importance in the policy paradigm. Social policy experience in East Asia counters the assertion that social protection can only be implemented after reaching high levels of economic development.

Inclusive social policy can be introduced at more modest levels of economic development and, furthermore, is essential for countering the new risks arising from globalization.

NOTE

1. The welfare state in this article refers to a set of public policies and institutions that aim to protect citizens against poverty and social contingencies. This does not necessarily mean that the level of social protection is adequate, or that welfare programmes within the welfare state are comprehensive.

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