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GLOBALISATION AND REGIONAL WELFARE REGIMES: THE EAST ASIAN CASE

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ABSTRACT

This paper contributes to the ongoing debate about the impact of globalisation on welfare systems across the world. Its argument is that economic globalisation alters the global balance of forces compared with the 'Golden Age' of welfare capitalism, but that its impact on policies and outcomes is decisively mediated by national and regional 'welfare regimes'. This argument has been developed in relation to the advanced capitalist countries of the North but is rarely applied to the South. This paper does so through a case study of five economically successful countries in East Asia: Korea, Malaysia, Thailand, the Philippines and Indonesia. It depicts and analyses their welfare regimes using a new conceptual framework developed at the University of Bath. It then considers the impact of the Asian financial crisis, as an example of the new risks faced by exposed countries in the global economy. The conclusion is that, despite common, sudden and decisive macro-economic problems, the social policy reactions have differed across the five countries, in part reflecting variations in their welfare regimes.

Key words

Globalisation; welfare regime; east asia; social policy

Bio

Ian Gough is Professor of Social Policy at the University of Bath, UK, and co-director of *Social Policy in Development Contexts*, a research programme funded by the Department for International Development. His latest books are *Capitalism and Social Cohesion* and *Global Capital, Human Needs and Social Policies: Selected Essays 1994-99.*

This paper contributes to the ongoing debate about the impact of globalisation on welfare systems across the world.[1] Its argument is that economic globalisation alters the global balance of forces compared with the 'Golden Age' of welfare capitalism, but that its impact on policies and outcomes is decisively mediated by national and regional 'welfare regimes'. This argument has been developed in relation to the advanced capitalist countries of the North but is rarely applied to the South. This paper does so through a case study of five countries in East Asia: Korea, Malaysia, Thailand, the Philippines and Indonesia. It depicts and analyses their welfare regimes using a new conceptual framework developed at the University of Bath. It then considers the impact of the Asian financial crisis, as an example of the new risks faced by exposed countries in the global economy. The conclusion is that, despite common, sudden and decisive macro-economic problems, the social policy reactions have differed across the five countries, in part reflecting variations in their welfare regimes.

GLOBALISATION

'Globalisation' is frequently alleged to constrain and undermine national welfare states where they exist, to stall their development elsewhere, to encourage 'social dumping' and to generate a 'race to the bottom'. The effects are claimed to operate via lower tax levels, labour standards, social expenditure ratios, coverage of social programmes, and income redistribution. Yet evidence to back this up is remarkable by its absence, judging by a sample of recent empirical work.[2]

It is not unusual for a taken-for-granted truth to lack evidential support. The lack here suggests problems in defining and operationalising one or more of the following: the independent variable, the dependent variable, the causal links between the two, the relevant time period, and the impact of other factors in the policy environment. To sketch each in turn:

‘*Globalisation’* is a protean term. A recent survey ranges over increasing global connectedness in governance, trade, finance, production, migration, communication, culture and the environment (Held et al 1999). The focus of this paper is *economic* globalisation, but even then we must at least distinguish between trade, direct investment, the international integration of production, and the globalisation of financial markets. These four elements have appeared in roughly this order in the last two centuries of capitalist development, with trade taking off in the second half of the 19th century, serious transnational integration of production following the Second World War and expanding in the 1960s, and global financial deregulation and integration not seriously underway until the 1980s. Each has different potential impacts on the ‘welfare state’, suggested in Figure 1. The period from the mid-1980s has witnessed accelerating global integration on all fronts, with further tariff reductions, an escalation of FDI and a notable integration of financial markets.

One feature of the present period is the enhanced power of capital compared with that of nation states and other actors in civil society such as trade unions. Farnsworth and I argue that this reflects its greater *structural* power **-** the ability of business and finance to influence policy without applying direct pressure on government through their agents. This is based on ‘exit’ rather than ‘voice’, though in practice the two are intertwined (Gough and Farnsworth 2000). Greater economic openness has enhanced the exit options of capital invested in many fields of activity, and, *ceteris paribus*, has made governments, unions and other actors more responsive to capital’s demands. However, there are two important caveats. First, this is not something new. In a capitalist society, the owners of the means of production always exert structural power of a qualitatively different kind to other actors by virtue of their majority control over investment and thus future prosperity. Second, this structural power is a variable, not a constant. It varies according to national (and supra-national) institutions and ideologies. Thus, among the G7 countries, we find that the structural power of capital grew most in the 1980s and 1990s in Britain, where restrictions on capital mobility were decisively removed, investment was privatised, and labour was unemployed, deregulated and then recommodified.

Yet this was not the case - at all or to the same extent - in the other G7 countries. The influence of Britain's institutions and its place in the world economy, and of the neo-liberal ideology of the Thatcher government were also decisive.

Globalisation, as defined here, excludes global economic *governance*. The ideas and leverage of the US Treasury, the Federal Reserve, the IMF, the World Bank, and now the WTO are of immense importance throughout the developing and transitional world and indeed the OECD world. High US interest rates from 1980 onwards and the subsequent injunctions and impositions of the IMF and other IFIs on the developing world clearly had a deleterious and often catastrophic impact on many countries during the 'lost decade' of the 1980s, and on the transition process of countries like Russia in the 1990s. If this is 'economic globalisation' then its impact on the social fabric of much of the world has been powerful and negative. But my focus here is on the automatic, non-intentional effects of the processes of economic globalisation on the social capacities and outcomes of different nation states.

Second, 's*ocial policy'*, 'social welfare' and the 'welfare state' are also slippery terms. Developed social policies may harm social welfare (as in Apartheid South Africa), high spending ratios may signal anti-welfare states (when spent on the military and elites), welfare states may not be a necessary or sufficient condition for improved social welfare. This makes it difficult to track 'improvements' and 'retrenchments'. It may be desirable for pension replacement levels to be cut if they go to the privileged, or if the elderly are more prosperous than average, or if generous rates impede the development of alternative social programmes to meet new risk structures. Of course, many social programmes contribute to meeting basic human needs and other desirable outcomes. But not all do, and there are functional alternatives to the classic welfare states of Europe. The welfare state remains contradictory.

Third, the causal *link* between globalisation and welfare systems is difficult to establish. The positive correlation between social expenditure ratios and openness to trade appears to be stronger now than when first identified by Cameron (Rodrik 1998). A recent study of four world regions found practically no evidence of trends towards social dumping in Southern Europe, Central Europe, East Asia and the southern cone of Latin America (Alber and Standing 2000). Others claim the picture is different when specific measures of social programmes or indicators of welfare outcomes are used, but then the causal links are more tenuous and the measurement problems are greater.

Fourth, the issue of *time periods* and lags may rescue the pessimistic analysis: it is possible that the full impact of economic globalisation is yet to be witnessed, let alone measured. This is especially true of 'strategic retrenchment' when measures are put in place to systematically slow down or reduce social measures over the medium to long term (Pierson 1994). Subsidising private capitalised pensions may raise budgetary costs in the short term but reduce them in the longer term by a) encouraging exit from the public system, thus reducing claims, and b) undermining political support for future public pensions. These dynamic effects on welfare-concerned political coalitions are of great concern.

Lastly, the wider *environment* may counteract any globalisation influences there are. Pierson (1998) has documented the major domestic shifts which are profoundly modifying the social policy environments in the OECD world (see the lower half of Figure 1). As he points out, few of these have any links with globalisation. Indeed, the moves towards a post-industrial service economy directly undermine the globalisation thesis, implying a shift towards more non-tradables and location-specific production. Lastly, national social policies are continually driven by domestic conflicts and policy feedbacks operating within nationally specific institutional forms and constellations of actors. These decisively mediate pressures of globalisation.

Figure 1 here

The (perhaps obvious) conclusion is that globalisation pressures are always mediated by domestic and international institutions, interests and ideas. This argument has been developed in relation to the advanced capitalist countries of the North, most notably by Scharpf (2000), but is rarely applied to the South (Lee 1999 is one exception). This paper considers social policies and globalisation pressures within the framework of comparative welfare regimes in the South.

WELFARE REGIMES NORTH AND SOUTH

In the classic formulation of Esping-Andersen (1990), welfare regimes are ways of conceptualising the welfare programmes, outcomes and effects of those capitalist societies that have been transformed into welfare states. The concept of welfare regime embraces at least the following features:

1. the pattern of state social policies and programmes, usually distinguishing social assistance, social insurance and universal citizenship modes of distributing benefits in cash and in kind;
2. the wider pattern of welfare provisioning in society, usually in terms of the division of responsibility between the state, the market and the household;
3. the welfare outcomes of these institutions, in terms of the degree of 'de-commodification' achieved - the extent to which a household's standard of living is insulated against their position in the labour market;
4. the stratification outcomes of these institutions: how and to what extent the welfare system in turn shapes inequalities, interests and power in society and in this way reproduces the welfare regime through time.

The first two components are sometimes referred to as the 'welfare mix'. Thus in a nutshell:

Welfare regime = Welfare mix + welfare outcomes + stratification effects

This all takes place within a constellation of forces and power shaped by the dominant 'political settlement' in that society. Such settlements usually emerge following periods of crisis, such as the post-Second World War period in Western Europe. The political settlement between classes and other crucial power groups then shapes inequalities, interests and power which reproduce the welfare regime through time - until the next crisis. This does not mean that welfare regimes cannot adjust to pressures for reform, but it does mean that social policy reforms are heavily regime-dependent.

Within the OECD world, Esping-Andersen distinguishes three welfare regimes - the liberal (exemplar countries: the US and the UK), conservative (exemplar countries: Germany, Italy) and social-democratic (the Nordic countries). One intent is to develop a middle range theorisation of welfare systems which avoids, on the one hand, teleological or functionalist approaches emphasising commonalities and convergence and, on the other hand, post-modern perspectives emphasising national and sub-national uniqueness. In particular, by demonstrating the way welfare regimes shape interests, ideas and power constellations in different societies, he claims to show that, once established, they follow different paths of development.

Can this paradigm be adapted to analyse social policy in the South? There are numerous differences which may invalidate such a conceptual transfer. Our work at Bath proposes that the original model needs drastic modification to take the following differences on board (Wood 2000, Gough 1999).

International factors:

- A history of colonialism, settler societies or externally-constrained development.

- Economic dependency in the international economy. A different position in the international political economy marked by a) greater levels of indebtedness and capital inflows, b) sectoral imbalances in domestic economies.
- Political dependency in the international polity. Usually a greater role played by international organisations, whether global (WB, IMF, UN etc), supra-national NGOs, or powerful Northern states.

Socio-economic environment:

- By definition almost, lower levels of marketisation, industrialisation and income.
- Different forms of peasantry, land ownership, kin structures, household forms and gendered relationships.
- Based on these, different patterns of group formation based more on ascriptive, status-based identities.

Political mobilisation:

- A different distribution of power resources: weaker class organisation of politics and more particularistic, regional, patrimonial and clientelistic forms, resulting in the 'adverse incorporation' of weaker groups.

State institutions:

- Less embedded, or absent, democratic practices
- Lower state infrastructural (though not necessarily repressive) capacities and less autonomous state institutions

Social policies:

- A greater range of functional alternatives to Western-style social protection beyond the state (religious, enterprise-based, NGO, foreign aid, local/communal, clan and household provision).
- A greater range of functional alternatives to Western social protection programmes within the state (e.g. consumption subsidies, agricultural support, work programmes, micro-credit schemes)

- The traditional boundaries of social policy need extending still further to include improving governance and voice.

Welfare outcomes:

- Again almost by definition, lower levels of welfare outcomes, except among the rich.
- De-commodification is less relevant or irrelevant as an index of welfare outcomes: alternative and more direct measures are required.

This huge range of contrasts urges caution in applying welfare regime analysis to the South. On the other hand, these dimensions offer a rich matrix for understanding differences within the developing, transitional - and declining - worlds of the South. The welfare regime approach has much to offer if appropriately reformulated. First, the welfare regime approach is precisely concerned with the broader ‘welfare mix’: the interactions of public sector, private sector and households in producing livelihoods and distributing welfare: a fruitful theme in the development literature. Second, it is a ‘political economy’ approach which embeds welfare institutions in the ‘deep structures’ of social reproduction: it forces researchers to analyse social policy not merely in technical but in power terms, and this has much to offer. Third, it enables one to identify clusters of countries with welfare features in common; it holds out the promise of distinguishing between groups of developing countries according to their trajectory or paths of development. With this approach we can avoid the ludicrous situation where common and universal remedies are proposed for Malawi, Malaysia, Mexico and Moldova. It accords mutual respect to global pressures and regime-specific features within the ‘South’ as well as the North.

In order to enjoy these benefits without imposing inappropriate frameworks, we propose to extend the welfare mix, or the ‘institutional responsibility matrix’ (Wood 2000), to include the eight components in Figure 2. The task of developing an appropriate social politics in underdeveloped, developing, and transitional countries entails at least this degree of conceptual innovation.

Figure 2 here

The remainder of this paper describes, analyses and conceptualises the welfare regimes of five East Asian countries: Indonesia, Korea, Malaysia, the Philippines and Thailand. They are of interest for several reasons. First, they are all participants in the 'East Asian miracle' and beneficiaries of the alleged benefits of economic openness and market-friendly policies (World Bank 1993). Second, they all fall within the second regime cluster of countries with restricted social policies but relatively good welfare outcomes. Third, they were all notable victims of the Asian financial crisis of 1997-99, and thus provide a good test case of the downside, as well as the upside, of globalisation. It is for this third reason that this paper focuses in particular on these five countries.

WELFARE REGIMES IN EAST ASIA

Notwithstanding these similarities, the five countries differ in many respects, including level of development. Korea is an upper income group country, and now a member of the OECD. Its income per capita is double that of the next richest, Malaysia, which in turn is roughly double that of Thailand, which in turn has roughly double the per capita income of the Philippines and Indonesia. These are wide divergences, though, when calculated at purchasing power parity, the overall gap between Korea and Indonesia falls to 4.4:1 (see Table 1). Our focus in this paper is thus on four major countries of Southeast Asia plus Korea. As we shall see, Korea is an outlier, a representative of Northeast Asian welfare capitalism, and thus provides a useful pole of contrast with which to compare the Southeast Asian countries. This section describes the welfare mix and welfare outcomes of these countries before analysing and speculating about their welfare regimes.

Table 1 here

Institutional programmes: the welfare mix

State social policies

State revenues and expenditure account for just below one fifth of GDP in Southeast Asia, not noticeably lower than in other middle income countries, but public social expenditures are very low except on education. Total spending on education, health and social security varies with level of development, ranging from 3% of GDP in Indonesia, 6% in the Philippines and Thailand to 8% in Malaysia and 11% in Korea. The share of total government spending devoted to social services is less than one half, varying between around one quarter in the Philippines to just over one half in Korea. However, rapid growth means that real resources devoted to the social sector have expanded faster than in most countries. There is a generalised hostility to Western ideals of the 'welfare state' except paradoxically for employees of the state - social provision for civil servants, the military and police, teachers, etc is everywhere extensive and generous.

East Asian governments have consistently emphasised the central role of *education* in economic development, though this is not matched by a higher than average expenditure for middle income countries. But with fast economic growth real spending has climbed rapidly (except in the Philippines) and the general verdict is that the allocation of resources is more rationally targeted on basic education than in other developing countries (World Bank 1993: 192-203). All five countries have achieved near-universal primary education. Secondary school enrolment is rising but the countries are at different stages on this path: the Philippines and Korea had enrolled over one half of children in the 1970s and Malaysia in the 1980s, whereas Thailand and Indonesia still remain below this level.

Health expenditure is low in East Asia compared with other middle income countries and actually fell as a share of GDP in the 1990s in all countries except Thailand (Ramesh 2000: Table 4.5). Since private spending accounts for about one half of the total, public health expenditure is remarkably low - between 0.7% GDP in Indonesia and 2.3% in Korea. Not surprisingly, all health inputs (doctors, nurses, hospital beds) are very scarce on a world scale. Yet all countries provide reasonable access to basic and preventive health care, with Korea and Malaysia as the best performers. 'The widespread availability of public health care in Southeast Asia suggests that most sick people have some access to health care' (Ramesh 2000: 113). Beyond this, there are significant inequities. The dominant medical system in the region is 'public provision - private finance'. In all countries civil servants and state employees have their own superior systems of insurance and provision, private provision is rising until interrupted by the financial crisis, and different measures to decentralise or 'corporatise' public hospitals, or to contract-out key services are being tried out. The rich have the further option of treatment abroad in regional centres such as Singapore, Hong Kong and Australia. A general hierarchy can be observed in medical treatment: overseas > private > public > self-medication and traditional medicine - though the latter has a high status in Thailand (EIU 1999).

All countries have a some form of public health insurance, apart from Malaysia which is closer to a national health service. The *Philippines* has a long-established health insurance system, but with low coverage and erratic provision of services. The 1995 National Health Insurance Act plans to provide universal health care by 2010. In the space of a little over a decade *Korea* has moved to a fully-fledged National Health Insurance System - universal and integrated but with high copayments and not yet redistributive. *Thailand* and *Indonesia* have both introduced health insurance for limited sections of the population backed up by medical assistance schemes. *Malaysia* has a more British-style National Health Service, backed up by personal medical accounts within the Employee Provident Fund. Roemer in 1991 classified the Malaysian health care system as 'welfare-oriented' in contrast to the other four which he labels 'entrepreneurial'. Korea may now be moving towards the former.

Public spending on social protection, including *pensions*, is remarkably low in comparative perspective, whatever the comparator (Asher 1998, ADB 1998). Again, pensions for civil servants, the military and some other public sector employees are the exception. For the rest of the population, the national pension systems divide into two main types: social insurance in the Philippines, Korea and Thailand, and provident funds in Malaysia and Indonesia. The Filipino scheme is more than forty years old and continues to expand its coverage, including voluntary membership even for Filipinos working overseas. Replacement rates are high at around 60%, but the employer compliance rate is low, with up to two thirds of the paper members not contributing at any one time (Ramesh and Asher, 2000: 71). From a late start in 1988, the National Pension Scheme in Korea is extending its coverage and building up a transitory fund over a 20 year period - full pensions will not start until 2008. Thailand, in January 1999 added an old age pension element to the Social Security Act of 1990. This is a defined benefit pay-as-you-go scheme but will not pay out full pensions until 2014. Non-compliance or evasion is estimated to be high.

The Malaysian Employee Provident Fund, the first in the world and now in its 50th year, is a developed, expensive and savings-effective fund. Since 1994, members have been able to opt for an annuity instead of a lump-sum. Reforms have established separate accounts for education and health and have encouraged more flexible individual investment. However, the EPF provides weak protection against poverty in old age, offers insecure returns and, through tax exemptions and other features, is perversely redistributive. Despite an almost equally long history the *Jamsostek* fund of Indonesia has a small coverage, uneven record keeping and tiny reserves, but coverage has climbed in the 1990s. It provides only a lump sum payment on retirement.

Formal safety nets can be defined as public programmes targeted to the poor with the objective of raising living standards to a specified social minimum. They can take the form of cash transfers, public works employment and subsidies for important need satisfiers, such as food and housing. They are limited in scale, coverage and cost throughout the region, but they have been expanded in response to the crisis. As a share of GDP they are most extensive and expensive in Korea (2% GDP in 1999) and Indonesia (planned 1.25% GDP in 1999-2000), but are tiny in Malaysia and Thailand (World Bank 1999a: Table 3). The extensive Korean public works programmes were a short-term response to mass unemployment and have since almost disappeared to be replaced by the more significant public assistance reform of 1999.

Market

Access to the *labour* market is a major resource in East Asia, as in the OECD, and the expansion of wage labour in the region has been remarkable. Over the last two decades until 1997 the labour force grew by 2% pa. The regional participation rate is high: ranging from 89% in Thailand to 66% in Malaysia. This labour force is becoming feminised but, with the exception of Thailand where it is higher, the overall share of women at about 40% is roughly the world average. Until the economic crisis of 1997-98, unemployment rates were consistently low, except in the Philippines; they escalated during the crisis of 1997-98 (World Bank 1999a: 14), but are now declining. Despite remarkably extensive labour legislation covering minimum wages, hours of work, paid leave, employment security, protection against dismissal, redundancy pay and occupational health and safety (Deery and Mitchell 1993, Rigg 1997: 223-27), protection in practice is poor due to weak government agencies, bribery of officials and weak trade unions. Nevertheless, growing access to the formal labour market - commodification - has been a critical feature of East Asian welfare regimes.

The private market for *social services* is substantial and fast-growing. One half of all education spending and almost two thirds of all health spending is privately financed. Much of this is reactive and unorganised, comprising out-of-pocket expenditures, book purchases, self-medication etc. The dominant pattern is of ‘mainly private finance and mixed provision’ - unlike OECD countries, where public finance plus mixed provision is more typical. For example, Korean households spend 10% of their income on education and 5% on health, compared to 1.4% and 1.3% in the UK (Shin 2000). Government regulation of private providers is typically weak, but is becoming more proactive. In 1999 Malaysia decided not to privatise or ‘corporatise’ its public hospitals (EIU 1999), though it is now directing its EPF to invest more in equities, owner-occupation and private stock purchases, which indirectly encourages privatised provision. There is as yet little development of private life insurance or pensions.

C*ommunity, civil society and NGOs*

Non-profit and non-governmental organisations active in the field of human development and welfare are a very recent phenomenon in East Asia, where in the past they have been discouraged by authoritarian regimes (Yamamoto 1999). The one exception is the Philippines where they have a longer history due to the American legacy and the Catholic church. Community development is now a burgeoning part of social policy, and includes such innovations as community health financing in Thailand. However, the total amount of such funds is small relative to Thailand’s total health expenditure. Moreover, all NGOs remain heavily dependent on external sources for funds, notably official overseas aid organisations, US philanthropic funds and Japanese corporate funds. In Korea, the *chaebol* have generated philanthropic corporate funding to an extent unknown in the other countries - mainly as a form of tax avoidance.

Family - household

Throughout East Asia, the extended family persists as a provider, saver and redistributor, despite rapid economic development and urbanisation. The level of savings is extremely high in East Asia, the Philippines excepted. This should permit more families to mitigate risk by ‘self-insuring’: saving in good times and dis-saving in bad times (World Bank 2000: Chapter 5). However, despite impressive development of micro-finance and credit schemes, the unequal distribution of incomes in the region undermines this. Calculations of private transfers show high levels in the Philippines, Indonesia and Malaysia, adding between 9 and 20% to the average incomes of recipient households. They outweigh public transfers by several orders of magnitude. In the 1980s, the majority of people over 60 years were receiving income from family members and an even higher proportion lived with children or family - between 3/4 and over 90% in the Philippines and Thailand. These remarkably high proportions are now falling in Korea, from 78% in 1984 to 49% in 1994.

International agencies

Official development assistance by the OECD countries fell throughout the 1990s as a share of donors’ GNP, recipients’ GNP and in dollars per head. Before the Asian financial crisis, Korea and Malaysia received no ODA, but it remains of some significance - between 0.4-0.8% GNP - in the other three countries. Despite short-term crisis aid to countries such as Indonesia in 1997 and 1998, this is now a marginal contributor to the East Asian welfare mix.

In contrast, international firms see the region as a growing market for a variety of health products, ranging from drugs (self-medication is rife) to health maintenance organisations. This is mainly the result of gaps in public provision, but is increasingly being sponsored by governments. For example, Indonesia permitted for-profit hospitals in 1988, extended this to foreign investment in large hospitals in 1994 and, in 2003, will permit unrestricted foreign investment in all health care (EIU 1999: 115). There is also a growing market for overseas health treatment of the rich, notably in regional centres such as Singapore, Hong Kong and

Australia. In education, a persistent shortage of university places in Malaysia and, to a lesser extent, in Thailand has encouraged study abroad, mainly in English-speaking countries, and 'twinning' arrangements with foreign institutions - another form of internationally marketised provision.

The dominant international household strategy is labour migration and remittances of money. The Philippines is a big exporter of labour. By 1995 1.5m Filipinos lived abroad as permanent immigrants and a further 2m at least worked temporarily abroad or at sea (Woodiwiss 1998: 101). The remittances they send home amount to 6.4% of Filipino GNP, and 10% if unrecorded cash and goods brought home by workers are included (ILO 2000: Tables 2, 4). These flows, together with the household flows within the country discussed above, constitute a significant element of the Filipino welfare regime. At the opposite extreme, Malaysia, a net importer of labour, has been able to control unemployment among Malaysians by offloading the recent crisis in the labour market onto immigrants.

In summary, the *welfare mix* in the region is one of relatively low public responsibility (in terms of expenditure, provision and regulation), extensive family provision and redistribution, and growing private markets and community-based organisations. Until the 1997 financial crisis, the countries had been curtailing their dependence on aid, but they have increased their openness to commercial penetration from abroad. Within the public sector priority is given to social investment in health and education, notably basic health care and primary education, with very little attention to social protection. In all countries, state personnel are supported most generously.

Welfare outcomes

Mortality, including infant mortality, has declined remarkably in the last three decades, most notably in Korea and Malaysia. The provision of sanitation, water and preventive health is also superior to comparator countries. Less impressive are the high levels of maternal mortality and child malnutrition, notably in Indonesia and the Philippines. These are symptomatic of a major failure to diminish further inequalities in health and access to health-related services such as immunisation, obstetric care, piped water and sanitation. The region also faces new health threats, stemming from ageing and the epidemiological transition, urbanisation (e.g. traffic accidents) and lifestyle changes (e.g.. more smoking) (World Bank 1999b). Korea and Malaysia do better on all fronts, whereas the Philippines does worse than its income level would warrant.

Illiteracy is all but eradicated in Korea, the Philippines and Thailand, but persists in Malaysia and Indonesia. Gender differences are low in a comparative context. This may reflect the relatively egalitarian nature of gender relations in the region when compared with Northeast and South Asia.[3] Measures of quality in education outcomes show a different pattern: Korea is a world leader, whereas Indonesia, the Philippines and Thailand fall below the 'international mean' (data is not available for Malaysia) (Mingat 1998: 701).

The region (apart from the Philippines) has witnessed an impressive reduction in poverty rates from above 40% in the 1970s to around 10% or less in the 1990s. However, inequality is high and rising (Atinc and Walton 1998: 10). Furthermore, income distribution data typically excludes capital gains. The huge asset inflation in real estate and financial valuations throughout East Asia in the 1990s has undoubtedly worsened inequality still more. At the other extreme are groups suffering from significant and quasi-permanent social exclusion, including 'hill peoples', migrant workers, street children, orphans and refugees (Rigg 1997, ch.4, World Bank 1999a: 6).

'De-commodification' has less meaning in societies with significant agricultural and informal labour and is not systematically measured in East Asia, but we may be confident that it is low. Labour in Southeast Asia is either pre-commodified, working in subsistence agriculture, or it is commodified - reliant on the labour market with few statutory protections or substitutes. Indeed, opportunities to participate in the labour market are a key feature of the East Asian welfare regime. One measure of these are higher educational opportunities, where differences are wide. Korea offers the greatest opportunities with a tertiary enrolment rate of 50%, with the Philippines (27%) and Thailand (21%) some way behind. Most surprising here is the low access to tertiary education in Malaysia (10%).

To summarise, in terms of *welfare outcomes* the region achieves high scores across health, education and poverty reduction. However, there are persistent gaps and inequalities, especially in less well monitored areas such as morbidity, school drop-out rates, working conditions and social exclusion. Notwithstanding these numerous blots, on the Richter scale of social development East Asia achieves something akin to the liberal alchemists' dream: relatively good welfare outcomes at very low cost in terms of public social expenditure.

Putting together welfare mixes and welfare outcomes we can identify national variations. *Korea*, by far the richest economy, has higher standards of educational and other social outcomes. Now it is embarking on a rapid and thorough-going expansion of social insurance. The *Philippines* enjoys much lower growth, a long-established, segmented and partial social insurance tradition, high levels of unemployment, poverty and inequality, yet good access to education. The outcome has been labour emigration and high remittances which augment the role of the family. *Malaysia* has a different policy profile with its Provident Fund alongside a British-influenced national health system and relatively low levels of private finance. *Indonesia* and *Thailand*, despite remarkable growth, are at present less institutionally developed and differentiated as welfare regimes.

From welfare mix to welfare regimes

Attempts to explain East Asian social policy have mainly concentrated on the most developed economies: the Four Tigers of Korea, Taiwan, Hong Kong and Singapore, only the first of which is represented in this study. I shall begin with this literature before addressing the countries of Southeast Asia.[4] The explanations of this distinct welfare regime can be divided into two levels: those which privilege different components of the welfare mix (though not usually expressed in this way) and explanations which situate these in a broader sociological or political economic setting.

The other components of the welfare mix identified by Esping-Andersen (1997) and Jacobs (1998) are:

- *Market*: fast rising incomes plus a reasonable distribution of factors incomes permits a very high savings rate and fast rising private finance of welfare. This both reflects and contributes to low taxes and the lack of public alternatives.
- *Enterprise*: social benefits, employment protection and seniority wages continue to play a substantial role. They underpin a 'male breadwinner model' of welfare, by providing good benefits for primary sector workers which can only be redistributed within the family. This generates vested interests in their retention.
- *Family-household*: a 'modified stem family' has emerged in which the majority of elderly live with children. Income pooling within families reduces middling-high inequality between individuals resulting from the male breadwinner model. This partly feeds off the lack of public sector alternatives and in turn reinforces the enterprise-household regime through discouraging employment opportunities for women and young people.

Broader explanations of this pattern of policies and outcomes can be roughly divided into three (Holzer 2000 develops an interesting conceptual synthesis):

- *Cultural*: ‘Confucian values’ is a protean notion, but has been advanced as an explanation because of its emphasis on family obligations, education, paternalism and social harmony. However, in earlier incarnations it was used to explain Asian backwardness due to its emphasis on respect for authority. White and Goodman (1998: 16-16) reject this explanation on the grounds, among others, that it is essentialist, static, abstract and over-elastic.
- *International*: Economic openness is hardly unique to East Asia, but it developed early in the region, and the East Asia states have for long ‘made a virtue out of this necessity’ (Holliday 2000). Their post-war history of political vulnerability, US hegemony and centrality in the Cold War is another explanation of their role as successful models of the globalisation strategy.
- *Developmental state*: This is usually defined as a state where elite policy makers set economic growth as the fundamental goal and pursue a coherent strategy to achieve it. This can be combined with different social policies, but all entail the explicit subordination of social policy to economic policy and economic growth. It requires that state policy makers be relatively insulated from interest groups and have a high degree of internal coherence and loyalty.

Holliday (2000) proposes that (North) East Asia comprises a fourth welfare regime of *productivist welfare capitalism*, in which social policy is subordinated to economic policy. Within this generic welfare regime, Korea, alongside Japan and Taiwan, constitutes a *developmental-universalist* mode, where the state underpins market and family provision with some universal programmes, mainly to reinforce the position of productive elements in society. From 1960 to 1987, Korea combined an authoritarian developmental state with a residual, competitive form of social policy. In particular the social ministries were subordinated to the Economic Planning Board and its goals, which permitted state spending only on productive social investments, notably education (Shin 2000).[5]

Welfare regimes in Southeast Asia

To what extent does Southeast Asia replicate the welfare regime pattern of Northeast Asia? Research in this region is scarcer, though Ramesh (2000) fills some of the gaps. Hence the following is devoted to drawing similarities and contrasts between Southeast and Northeast Asia.

Business

Business in Southeast Asia is more internationalised than in Northeast Asia and more open to multinational penetration. Inflows of direct investment are relatively free and substantial compared with the tightly controlled capital markets of Northeast Asia. These are not the ‘group-co-ordinated economies’ of Japan and Korea, with strong vertically and horizontally-integrated *keiretsu* and *chaebol*. In addition, business in Southeast Asia has traditionally been dominated by the Chinese who enjoy economic power but suffer, to varying degrees, political exclusion. Domestic capital is developing and organising throughout the region, but it remains fragmented and retains close links with political elites (Hawes and Liu 1993). The state, and in particular its technocrats, is less insulated from business pressures than in Northeast Asia and is as a result somewhat less autonomous.

Businesses’ interpretations of their interests are short-term, neo-liberal and anti-welfare. Southeast Asian capital is less likely to develop enterprise welfare or to support state welfare than its North-eastern counterpart. However, this does not rule out statist initiatives in social policy, since the topic (unlike trade, tax and economic policy) is generally of low salience for business. When other factors push for greater social programmes, the states have not been constrained in developing them.

Democracy and civil society

The dominant form of governance for the last four decades has varied between the brutal, the authoritarian and the 'semi-democratic' (Neher and Marley 1995). No country except the Philippines experienced democracy before WW2, and all have suffered military take-overs or periods of authoritarian rule in the last two decades. In addition, personalised patron-clientelist relations and a dominant party system undermine ideological politics and encourage segmental politics. Tanzi's (1998) index of corruption also reveals very high levels in the region, Malaysia partially excepted. This has perpetuated a weak civil society. Only in the Philippines can one identify a flourishing civil society in the pre-Marcos years and again since 1986. With the end of the Cold War, NGOs are encouraged and are expanding fast, but they remain strongly controlled in Malaysia and are regulated in Thailand and Indonesia (Yamamoto 1995). Thus democratic pressures for social policies from outside the state remain weak.

Labour

For the same reasons, since the late 1960s labour in the region has been 'weak, divided and tamed' (Deyo 1997), despite unprecedented growth in industrialisation, wage labour, literacy and other correlates of trade union activity. Trade unions have been periodically subject to draconian measures throughout the region. Membership is low and is largely confined to state sector workers and other narrow groups. Dominant union federations are subservient to regime interests. When in the late 1980s liberalisation beckoned, unions were constrained by the new forces of globalisation. In Deyo's (1997) words, labour organisations in Southeast Asia have moved directly 'from repression to deregulation'. Compared with the West, the ability of the labour movement to win social reforms has been severely constrained.

Agriculture, rural development and household strategies

Southeast Asia is a resource-rich region which to a far greater extent than in Northeast Asia remains a region of farmers. However, this is an agriculture which has long been semi-marketised, for several decades has been dynamic and which is now supporting 'rural industrialisation' (World Bank 1993: 32-37; Rigg 1997: 191) or 'smallholder-based rural development' (Atinc and Walton 1998: 6). The interactions between the rural and urban worlds offer important clues to understanding the welfare regimes of the region. Essentially, the rich rural hinterland supports family strategies which can successfully mix different livelihoods. Growing agricultural incomes and consumption demand can finance non-farming employment which absorbs rural labour and permits further investment and productivity and income increases in agriculture. In addition, this undermines the salience of urban factory life for many of the young family members who seek work in the cities, which further weakens labour organisations. Above all, income mixes within the wider family and household transfers provide an alternative for many to state welfare - which undermines further pressures for reform.

Statism, legitimacy and social policy

Social policy in East Asia can be characterised as 'bonapartist': 'The Bonapartist approach regards social policy in a politically functional sense as a means used by social elites of preserving the status quo, side-stepping the threat of major reform by granting modest concessions to increasingly important but still largely disenfranchised classes' (Baldwin 1990: 39). Baldwin goes on to criticise the usefulness of this explanation in Europe because it cannot explain how social policy can ever develop beyond the minimum necessary to maintain the existing order. In Southeast Asia it has largely not progressed beyond this level, so the concept might do quite well. However, it needs further elaboration to avoid functionalist overtones. Drawing on Kwon (1998) and Ramesh (2000: ch.6), I shall distinguish three aspects here.

First, social policy can play an important role in nation-building in post-colonial states. The region is replete with different colonial experiences: Japan in pre-war Korea, the US in the pre-war Philippines, the Netherlands in Indonesia before 1949 and the British in Malaysia until 1957. All have influenced subsequent social policies: the American educational legacy in the Philippines, and the British-legislated Employee Provident Fund in Malaysia are two notable examples. Only Thailand lacks a colonial inheritance, and the influence of the Japanese occupation of Korea does not match its impact on Taiwan. Social policy has also been used as an agency of nation-building in post-colonial era in the Philippines, Malaysia and Indonesia. Malaysia developed its *bumiputera* policies to strengthen ethnic solidarity through positive discrimination towards Malays, while Indonesia rapidly extended national education in the post-independence years in part to develop Bahasa Indonesian as the national language (Steinberg 1971: chapter 35). In the Philippines Magsaysay adopted an almost Bismarckian policy of toughness plus concessions in the face of the Huk People's Liberation Army in the early post-war years (SarDesai 1994: chapter 19). The 1957 Social Security System may be seen as the culmination of this process; ever since it has imparted a different dynamic to social protection compared with the rest of the region.

Second, there is the need to secure the loyalty of the elite and of key state personnel. Such 'etatist' social policy has a long history in Europe, and is clearly evident throughout East Asia as the extent and generosity of benefits for civil servants, the military and other crucial state sector workers attest.

Third, there is the role of social policies in legitimising undemocratic regimes, noted in the development of 19c European social policy. Ramesh develops such an explanation of social policy development in Southeast Asia, arguing that significant policy initiatives have occurred at times of internal threats, such as the 1950s communist insurgency and following the 1969 race riots in Malaysia, or in the late 1960s and early 1970s in Indonesia following rioting against the imposition of the New Order. Kwon and Shin also puts forward convincing arguments along the same lines for Korea during the authoritarian Park and Chun regimes. More evidence for the legitimising role of such social policies as have developed in the region comes from the well-attested gap between legislation and implementation (Shin 2000). For example, the Korean National Pension Programme was enacted by the Park regime in 1973 yet not implemented until 1988 by the Rho regime fifteen years later. This practice, which is found elsewhere in the region, suits a regime which wishes to give the impression of action without challenging core interests by actually delivering.

WELFARE REGIMES AND THE EAST ASIAN CRISIS

These, then, were the welfare regimes suddenly overwhelmed by the East Asian crisis in 1997. In summary, all were examples of 'productivist welfare capitalism' with social policy subordinated to economic policy and the imperatives of growth. Social expenditures were small but relatively well targeted on basic education and health as part of a strategy of nation-building, legitimation and productive investment. The growth in welfare over the last three decades has relied on the expansion of formal employment within the orbit of strong families, plus growing payment for services. Overseas aid was diminishing but the social sectors were open to foreign commercial penetration.

The main social effects of the crisis came through the following mechanisms:

- collapsing currency values, which generated higher import prices and extensive internal price changes, including falling asset values
- a drastic fall in output and thus in demand for labour
- falling state revenues and a squeeze on public spending
- fears of the erosion of the social fabric

In other words, the openness of the East Asian economies exposed them to an external shock which brought about a Keynsian-style collapse in demand (see Table 2). Moreover, at the same time the Philippines, Indonesia and Thailand suffered a severe drought.

Table 2 here

The social impact of the crisis has been portrayed and analysed by Manuelyan Atinc and Walton (1998) and Manuelyan Atinc (2000). Poverty rates rose in all countries as did the depth of poverty. The demand for labour and the share of wages declined everywhere, bringing about a collapse of private consumption, yet inequality did not rise notably, partly due to the collapse of asset prices hurting the rich and middle classes. Undoubtedly many poor households coped by cutting back on nutrition, postponing health care, taking some children out of school and other painful adjustments. However, the crisis turned around quicker than most commentators expected; it is now clear that it bottomed out in 1998 and recovery began in 1999. Moreover the impact differed: it was acute in Indonesia, severe in Thailand, Malaysia and Korea, and mild in the Philippines, where the preceding boom had been least. This, together with different inherited welfare regimes, resulted in different policy impacts (ADB/World Bank 2000)..

In Korea, labour demand fell sharply and, though real wages fell, the major impact was on unemployment, especially among women. As a developed industrial economy, Korean households had fewer rural resources to fall back on. At this time, Korea had already begun a restructuring of trade, economic and social policy, under pressure from the US and the Uruguay Round, to liberalise its economic structure, and internal demonstrations by trades unions and social movements. The first wave of reforms introduced by the Rho Tae-woo government in 1988 included Medical Insurance, the National Pension Programme, the Minimum Wage and new labour laws. Following the crisis, a second wave of reforms in 1998-99 followed, coinciding with the election of Kim Dae-jung as president. The economy was significantly liberalised and the close links between the state and the *chaebol* loosened. This was coupled with moves towards a more Western welfare system. Expenditure on unemployment insurance, wage subsidies and public works programmes escalated, to a remarkable 4% of GDP in 1999. In addition, the National Health System was restructured and expanded, pension entitlements were liberalised and an expanded Labour Standard Law introduced. A 'Labour-Management-Government' Committee was established which moved away, at least in name, from state-business symbiosis to a tripartite corporatism. In brief, greater exposure to the global economy and the subsequent crisis has undermined the influence and the social provisions of the *chaebol* and required the state to develop a more autonomous Western-style social policy. The unintended consequence of globalisation and liberalisation has been to *expand* the Korean welfare state (Shin 2000).

In Malaysia and the Philippines the policy impact has been less, but for different reasons. As noted above, the Filipino welfare regime differs in its lower growth rate (and thus reliance on labour market income growth), and its chronically high poverty and unemployment rates. It has for long relied on officially-encouraged emigration as a safety valve and income source: the 1995 Migrant Workers and Overseas Filipinos Act and the Philippine Overseas Employment Administration both facilitate emigration and offer some degree of assistance to emigrants. Since most Filipino emigrants are not working in crisis-affected countries, their remittances have cushioned the impact of the crisis and resulted in little policy innovation. Malaysia, by contrast, has managed to cushion the domestic impact of a severe crisis by offloading its impact onto immigrant workers, which account for some 7-10% of the labour force (Oberndorfer and Berndt 2000). As a result the official unemployment rate in Malaysia barely rose from 2.5% in 1996 to 3.2% in 1998. In both countries labour migration has reduced the direct crisis impact and forestalled significant policy innovation.

Thailand and Indonesia represent a different response. Both have strong rural hinterlands, where extensive smallholder agriculture acted as a shock absorber, and where escalating food prices helped real incomes. The crisis led to a drastic fall in formal sector wages (by 34% in Indonesia in real terms) and a massive shift from the formal sector back to the informal and agricultural sectors. Poor people without this fallback suffered doubly from the mushrooming costs of food. High inflation in Indonesia also contributed to a sharp fall in real public spending on education and health, which Thailand protected more successfully. Both governments undertook special measures to keep children in school, to buttress food security (such as Indonesia's cheap rice programme) and implemented public works programmes. In different ways both countries are emphasising decentralised policy responses. Indonesia introduced a local safety net programmes in July 1998 which soon accounted for 30% of total government expenditure. Despite the associated Community Monitoring concept, there has been evidence of short-termism and mis-spending (Ananta and Siregar 1999). Thailand is increasingly recognising the role of NGOs and community-based programmes, though the main emphasis is on credit and savings groups. In both countries, a strong rural base has helped cushion the impact of the crisis and strengthened the family component of the welfare mix. Public interventions have taken the form of building social safety nets and strengthening community-based elements of the welfare mix.

Thus a common crisis, indubitably a result of the increased economic openness of this dynamic region of the world, has generated different policy responses in interaction with varying welfare regimes. The separate, distinctive regimes in Malaysia and the Philippines have been little affected, due to the cushion of immigrant labour in the former and emigrant labour in the latter. Indonesia and Thailand have relied primarily on the cushion provided by more closely integrated rural-urban households and families, but are encouraging community-based social safety nets. Korea, more industrialised, urbanised and, in recent years, more democratic, has been propelled by the crisis towards a fully-fledged social insurance state.

CONCLUSIONS

‘Economic globalisation’ is changing the environment of welfare systems North and South, East and West. However, its impact is mediated by, first, forms of global economic and social governance (not discussed here), and second, by national and regional welfare regimes. The latter comprise the institutional bases of provision of livelihoods and security, the welfare outcomes resulting, and the patterns of stratification, interests and power which generate this matrix and contribute to its reproduction. This paper goes on to apply this framework to five countries in East Asia, interesting as examples of emerging market economies with restricted formal social policies but with relatively good welfare outcomes, all of which were engulfed by the East Asian crisi of 1997-99. Their welfare regimes have been described and analysed and the impact of the crisis has been then assessed. The conclusion is that a common crisis has engendered very different outcomes, with Korea moving swiftly to a developed social insurance state, Thailand and Indonesia developing a ‘third way’ based on community and local innovations, and Malaysia and the Philippines exhibiting less policy innovation.

However, in all countries the crisis has sparked interest in social policy as a newly relevant domain of state policy. The older confidence in economic growth as *the* social policy is eroding. There is more awareness too of the growing domestic pressures for social policies stemming from population ageing, shifts towards more technologically based economies, urbanisation and nucleating households. The dangers of a further financial crisis are not insignificant and thus there is growing debate about the need for formal social protection systems. Yet these longer-term concerns will also be refracted through domestic regimes. It is unlikely that the other countries will follow Korea in its move towards extensive public provision. It is possible that the Malaysian EPF will provide a regional model for pension provision. It remains to be seen whether education and health services succumb to the current fads about privatisation or will build on the successful elements of universal public provision. One thing we can be certain of: ‘globalisation’ will not call forth uniform policy responses in the region, let alone across the developing world.

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Figure 1: External and internal pressures affecting welfare systems

Source	Pressure	Consequences for advanced countries (examples)
External: 'globalisation'	Trade competition	Deindustrialisation; loss of unskilled jobs
	Capital mobility and integrated production	Tax competition; 'social dumping'; reduced bargaining power of states and labour
	Internationalised financial markets	Decline of states' macro-economic policy autonomy
Internal: 'post-industrialisation'	Slow growing service sector productivity	The 'trilemma' of employment, equity and budget stability
	Ageing	Growing pension and health expenditure
	Transformation of households	Smaller household sizes, more single parent households, more women working
	Maturing of social entitlements	Automatic growth of social expenditure

Figure 2. Components of the extended welfare mix

	Domestic	Supra-national
State	**Domestic governance**	**International organisations, national donors**
Market	**Domestic markets**	**Global markets, MNCs**
Community	**Civil society, NGOs**	**International NGOs**
Household	**Households**	**International household strategies**

Table 1. Welfare regimes in East Asia: summary indicators

		Korea	Malaysia	Thailand	Philippines	Indonesia	Average
State	Social spending/ GDP	11.0	8.2	5.9	6.0	3.1	6.8
Market	% private finance in health and education	54	36	53	66	58	53
House-hold	Private transfers: % income of receiving h/hs	4	11	..	12*	10	9
Welfare outcomes	Human Development Index	.85	.77	.75	.74	.68	.76
	Poverty rate: <$2 p.p. a day	..	22	24	63	50	40
	Gini index of inequality	.36	.48	.46	.43	.37	.42
Basic data	*Population (m)*	*46*	*22*	*61*	*75*	*204*	*408*
	Income pc (ppp) $000	*12.3*	*7.0*	*5.8*	*3.5*	*2.8*	*6.2*

Source: Gough 2000.
* Remittances from abroad amount to 10% GDP, and a higher share of household incomes, so are not fully reflected in this figure.

Table 2 The social impacts of the crisis in East Asia

	Korea	*Malaysia*	*Thailand*	*Philippines*	*Indonesia*	*Average*
Change in pc private consumption 1997-8, %	-10.2	-12.6	-15.1	1.3	-4.7	-8.3
Inflation 1997-8, %	7.5	5.3	8.1	9.7	57.6	17.6
Poverty increase % points 1996-98	9.6	..	1.5	..	5.4	5.4
Unemployment 1998, %	6.8	3.2	4.5	10.1	5.5	6.0
Public education exp 1997-98, % points	-5.8	-13.7	-1.3	+3.8	-27.7	-12.1
Public health exp 1997-98, % points	-3.2	-9.7	-10.7	-7.8	-12.2	-8.7

Source: Manuelyan Atinc 2000: Table 6.1.

ENDNOTES

1[1] The research on which this paper is based was made possible by the UK Department for International Development who funded the research programme *Social Policy in Development Contexts* at the University of Bath, 1999-2001. Thanks to my doctoral students, Shin Dong-myeon and Kim Jin-wook, and colleagues in the Bath research group for valuable comments on an earlier draft.

2[1] Rodrik 1998; Garrett 1998; Scharpf 2000; Bonoli et al 2000; Alber and Standing 2000.

3[1] As evidenced by the preference ratios for a boy versus a girl child among married women awaiting a next child (Mason, cited in Rigg 1997: 222):

Philippines	0.9
Indonesia	1.1
Malaysia	1.2
Thailand	1.4
Korea	3.3
Bangladesh	3.3
Pakistan	4.9

4[1] The literature is now large. See Kwon 1998, Goodman, White and Kwon 1998, Jacobs 1998 for some recent surveys. Most distinguish between the Northeast Asian countries (Japan, Korea and Taiwan) and the city-states of Hong Kong and Singapore. The analysis that follows relates to the former.

5[1] However, Esping-Andersen has warned against the dangers of over-emphasising path-dependency in countries like Japan, where the welfare system ‘has not yet sunk its roots, institutionally speaking’ (1997: 179). This applies *a fortiori* to Southeast Asia.

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