

# DEVELOPMENT AND SOCIAL SECURITY IN ASIA

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Europe is facing the question as to how it will be able to financially secure its rapidly ageing societies without future governments going further into debt. Asian countries, including Japan, South Korea, Singapore and China, are facing the same problem. However, unlike in Europe, many Asian countries are currently discussing expanding their social systems as this is considered a necessary condition for sustainable development in the region. The term “social security” refers to social protection systems, including social insurance, social assistance and national financial security funds. Therefore, the issue concerns policies and regulations that financially protect individuals against risks, such as unemployment, illness and disability, as well as childcare and old-age pensions. Other aspects of social security relevant to emerging and developing Asian countries remain excluded from the discussion, among them criminality, pollution, violent protests and military conflicts.



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## THREE COMPONENTS OF DEVELOPMENT

Social security affects development in three ways: firstly, efficient and effective social protection systems may be considered an indicator of the development of the rule of law in a particular country. The United Nations states that a minimum level of social security is a human right.<sup>1</sup> The International Labour Organization (ILO) defined the requirements in 1952 in the “Social Security (Minimum Standards) Convention (No. 102)”. During the implementation process, an indication of the rule of law can be whether, for example, the amount of social security is clearly defined, which services individuals are entitled to in each case, who

1 | Articles 22 and 25 of the Universal Declaration of Human Rights (UN General Assembly, 1948)  
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is considered the beneficiary and whether the system in question is effectively protected against corruption. Countries such as Indonesia and the Philippines are still significantly weak in this area.

Secondly, social protection systems should be considered the prerequisite to and/or the result of democratic development. For example, in various Asian countries (South Korea, Indonesia, the Philippines, Taiwan) social security systems were significantly reformed and expanded in the years following democratisation. In a nutshell, after the fall of the authoritarian regimes, although all citizens suddenly had the right to participate in their country's political decision-making process, large portions of the electorate were initially excluded from enjoying the achievements of this development, especially state pension provisions, which were only partially guaranteed at the time. This significantly increased pressure for reform on the (now freely elected<sup>2</sup>) governments. However, there are numerous variations and limitations on this, which will be presented in greater detail in the course of this paper.

Thirdly, social security affects a country's development in terms of economics. This dimension cannot be taken separately from political development and the development of the rule of law. Furthermore, a country's resource security, gender equality and demographic development are highly intertwined. However, these and many other aspects can only be touched upon briefly here. Instead, this paper will focus on analysing the future of social security systems in Asia within the context of economic development using an increase in productivity and domestic consumption as an example. This raises questions about the prospects for a greater degree of "inclusive growth" in Asia.

### **GREATER QUALITY ALONG WITH QUANTITY**

"Inclusive growth" refers to a development strategy that does not solely seek the highest possible growth rates for the gross domestic product (GDP), rather it simultaneously makes provisions to fight poverty and social inequality. In

2 | Or rather "elected without manipulation" because "free elections" were already often held before democratisation (South Korea, Indonesia).

short, economic development is more a matter of sustainability and “quality over (or in addition to) quantity”.

The World Bank and the International Monetary Fund (IMF) increasingly turned their attention to this topic following the Asian financial crisis in the late 1990s. They called for additional efforts to be made for a greater degree of social security from the standpoint of minimising risks due to loss of income and increasing domestic consumption. The focus was on the question of how much effort the public purse must put into financing social security systems in Asia.<sup>3</sup> After the outbreak of the banking crisis in the U.S. (2008) and the debt crisis in Europe, the Asian Development Bank (ADB) revived the discussion by establishing the necessary framework for inclusive growth.<sup>4</sup> ADB regards social security systems also as a core aspect of future economic development in Asia. Furthermore, the ADB and the World Bank disagree on the criteria that should be used to measure the success of “inclusive growth” (e.g. poverty reduction, equality of opportunity).<sup>5</sup>

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Since the deliberations on more “inclusive growth” in Asia refer to very different economic systems and levels of development, the literature only rarely refers to individual Western models for comparison, including, for example, the social market economy in Germany. The example of South Korea with its “Meister high schools” (since 2010) is often compared with the dual system of vocational training in Germany.<sup>6</sup> The same applies to Thailand with its vocational schools similar to the German system. Additionally, the “German Mittelstand” can be counted among the success

- 3 | Cf. Robert Holzmann and Steen Jørgensen, “Social Risk Management: A New Conceptual Framework for Social Protection and Beyond”, World Bank, *Social Protection Discussion Paper*, No. 6, 2000.
- 4 | Cf. ADB, *Key Indicators for Asia and the Pacific 2011: Framework of Inclusive Growth Indicators, special supplement*, Mandaluyong City, 2011.
- 5 | Cf. Stephan Klasen, “Measuring and Monitoring Inclusive Growth: Multiple Definitions, Open Questions, and Some Constructive Proposals”, *ADB Sustainable Development Working Paper Series*, No. 12, Mandaluyong City, 2010.
- 6 | Cf. Hyun-Hoon Lee, Minsoo Lee and Donghyun Park, “Growth Policy and Inequality in Developing Asia: Lesson from Korea”, *ERIA Discussion Paper Series*, Economic Research Institute for ASEAN and East Asia, Jakarta, 2012.

stories for more “inclusive growth” in terms of small and medium enterprises (SMEs) in Asia.<sup>7</sup> Both its disproportionately high expenditure on research and development and its high degree of internationalisation are impressive. In the technology sector, many small and medium-sized German companies rank among the world leaders. In countries like China and South Korea, it is popular to refer to the “hidden champions” when discussing an increase in productivity.

### **A GOOD STARTING POINT AND COMPLEX CHALLENGES**

Of course, within the scope of this paper it will only be possible to discuss basic trends. The Asian economies are far too heterogeneous in terms of their development levels and structure to be exhaustively analysed here. The same is true of the degree of social protection in the various countries. The treatment of these topics is therefore greatly simplified in many instances. Moreover, this text cannot predict the extent to and the speed at which successful solutions can be transferred to other countries. That being said, the most important determining factors for the relationship between economic development and social security should first be outlined here:

#### **Dynamic but restrained economic growth**

Overall, Asia has significantly improved its economic performance over the past few decades. The region continues to serve as the “engine of the world economy”. However, the Asian economies’ past spectacular and sometimes double-digit growth rates have receded. After a 6.1 per cent growth rate in 2013, the ADB predicts a GDP growth of 6.2 per cent for the current year and 6.4 per cent in 2015.<sup>8</sup> The modest economic recovery in the USA, Europe and Japan is evidence of a moderate upward trend. These are important markets for Asian economies. However, within Asia, this trend is hampered by China. In 2014, growth

7 | Cf. Ganeshan Wignaraja and Yothin Jinjarak, “Is finance a binding constraint for SME participation in trade in Asia?”, Asia Pathways, 3 Jun 2014, <http://asiapathways-adbi.org/2014/06/is-finance-a-binding-constraint-for-sme-participation-in-trade-in-asia> (accessed 18 Jun 2014).

8 | Cf. ADB, *Asian development outlook 2014. Fiscal policy for inclusive growth*, Mandaluyong City, 2014, 3.

in the People’s Republic is expected to slow slightly to 7.5 per cent and then likely to 7.4 per cent in 2015. India, by contrast, seems to have exceeded its lowest point in economic development (2013: 3.2 per cent GDP growth in real terms) and has recorded a 4.7 per cent growth rate for the fourth quarter of 2013 compared to the previous year. For the current year,<sup>9</sup> growth is expected to exceed 5.5 per cent, and we can expect to see 6 per cent growth in 2015. However, just like China, the sub-continent’s growth rates remain significantly lower than the growth rates of previous years.

Table 1

**Annual growth rate of GDP per capita at purchasing power parity in selected Asian countries, 1991 to 2012 (in per cent)**

Land	91	92	93	94	95	96	97	2000	2003	2006	2009	2011	2012
China	7.7	12.8	12.7	11.8	9.7	8.9	8.2	7.5	9.3	12.1	8.7	8.8	7.3
India	-0.9	3.5	2.8	4.7	5.6	5.6	2.2	2.3	6.3	7.7	7.1	5.0	1.9
Indonesia	7.0	5.4	5.5	5.8	6.7	6.0	3.2	3.4	3.3	4.0	3.2	5.1	4.9
Japan	3.0	0.57	-0.08	0.52	1.6	2.3	1.3	2.1	1.5	1.7	-5.42	-0.86	2.1
Philippines	-3.0	-2.0	-0.2	2.0	2.3	3.5	2.9	2.2	2.9	3.4	-0.5	2.1	4.8
Vietnam	4.0	6.7	6.2	7.0	7.8	7.6	6.5	5.4	6.1	7.0	4.2	4.9	3.9
Thailand	7.4	7.2	7.5	8.2	8.3	4.9	-2.4	3.5	6.0	4.6	-2.5	-0.2	6.1

Source: ADB, Statistics and Databases, <http://adb.org/figi/2013/web/StatTrends.html> (accessed 25 Jun 2014).

**The growing middle class with rising purchasing power**

The economic growth over the past few decades has been accompanied by great progress in the fight against poverty (see table 2) and the establishment of a social middle class. By 2030, two-thirds of all people in the Asia-Pacific region will be considered to fall within the middle-income bracket according to the Organisation for Economic Co-operation

9 | The Indian fiscal year begins on 1 April and ends on 31 March of the following year.  
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and Development (OECD).<sup>10</sup> In 2009, this figure was 28 per cent. This represents an increase from 525 million (2009) to more than 3.2 billion people (2030). By 2030, the Asia-Pacific region will account for almost 60 per cent of the consumption of the global middle class. In 2009, this figure was only 23 per cent. Karras and Gertz (2010) calculated that in 2030 (according to purchasing power parity in U.S. dollars, 2005) India, China, Indonesia and Japan alone will account for nearly half of global consumption of all middle-income people.<sup>11</sup>

Table 2

**Proportion of population living below two U.S. dollars a day, 1990 to 2010 (in per cent)**

Land	1990	1993	1996	1999	2002	2005	2008	2010
China	84.6	78.6	65.1	61.4	51.2	36.9	29.8	26.8
India	n.a.	81.9	80.2	78.9	77.9	75.0	72.4	68.7
Indonesia	84.6	84.6	77.0	81.6	67.0	5.8	54.4	46.1
Japan	—	—	—	—	—	—	—	—
Philippines	54.9	53.8	47.3	45	44.4	44.4	42.2	41.5
Vietnam	90.1	85.7	81.0	75.6	68.7	52.9	43.4	39.0
Thailand	37.1	25.3	14.6	17.8	13.4	8.1	5.0	4.1

Source: ADB, Statistics and Databases, <http://adb.org/figi/2013/web/StatTrends.html> (accessed 25 Jun 2014).

**High income disparity remains**

Nonetheless, the strengthening of the Asian middle class cannot hide the fact that many people are still living in the lower margins of these sections of the population. The

10 | Cf. Mario Pezzini, "An emerging middle class", *OECD Observer*, 2012, <http://oecdobserver.org/news/fullstory.php/aid/3681> (accessed 5 Jun 2014).

11 | Cf. Homi Kharas and Geoffrey Gertz, *The New Global Middle Class: A Cross-Over from West to East*, Wolfensohn Center for Development at Brookings, Washington, D.C., Brookings Institution Press, 2010, 6. Kharas and Gertz opted to use an absolute calculation approach in their comparison of countries to determine who counted in the "global middle class"; this approach included those with a daily purchasing power parity (PPP) from ten to 100 U.S. dollars.  
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“near poor” must make ends meet with an average of two to four U.S. dollars per day. According to the ILO, the proportion of the total number of employees they occupy in Southeast Asia alone has increased from 21.5 per cent in 2000 to 36 per cent today.<sup>12</sup> The increase in purchasing power in many places is primarily due to a larger consumer base because the proportion of the population of working age compared to the total population is increasing. This holds true for countries such as India, Indonesia and the Philippines. Not only does the large income disparity persist, but so does the informal sector share in the economy. A consequence of this is migration from rural areas to the city (China) or between countries (the Philippines, Bangladesh, Sri Lanka). In addition, large sections of the population still do not benefit from contributory social security due to their low income. Chun (2010) points out, given the high-income disparities, “it is the growth of consumers that have moved out of the middle class and into the upper class that will really drive consumption and will create a rebalancing of the global economy toward Asia.”<sup>13</sup>

**Large sections of the population still do not benefit from contributory social security due to their low income.**

## CHINA: RAY OF HOPE AND RISK FACTOR

To a varying extent, the development trends and challenges outlined above apply to all emerging Asian countries. However, China merits special attention because both the greatest risks and opportunities for economic development in Asia emanate from the People’s Republic.

In the first quarter of 2014, growth has once again cooled in both the manufacturing and investment sectors. Although the central government’s level of debt is officially approximately 20 per cent of gross domestic product,

12 | Cf. ILO, *Global Employment Trends 2014: Risk of a jobless recovery?*, Geneva, 2014, 57. The ILO distinguishes between “extremely poor” (less than 1.25 U.S. dollars per day in purchasing power parity, PPP), “moderately poor” (from 1.25 to two USD, PPP), “near poor” (from two to four USD, PPP), “developing middle class” (from four to 13 USD, PPP) and “developed middle class and above” (more than 13 USD, PPP).

13 | Natalie Chun, “Middle Class Size in the Past, Present, and Future: A Description of Trends in Asia”, *ADB Economics Working Paper Series*, No. 217, ADB, Mandaluyong City, 2010, 23.

if one includes the liabilities of local governments and municipalities, the level of debt amounts to approximately 45 per cent of GDP, and up to 70 per cent (or more) according to more pessimistic analyses.<sup>14</sup> Reliable figures on the total debt of the People's Republic are also unavailable because the credit growth over the past few years was fuelled by an opaque network of shadow banks. Moreover, in many places, investments were made in unproductive assets, and excess capacity was created.

### **Difficult adjustments of the economic model**

For the foreseeable future, state subsidies will remain an important driving force for economic growth in the People's Republic. For some transportation projects investment is now even being brought forward. However, it is not only the rising public sector debt that is increasingly worrying, but also that of Chinese businesses. Beijing, therefore, wants to rebalance its economic model. To reach the desired annual increase in gross domestic product of seven to eight per cent, the economy's dependence on state investments and exports should be relaxed, and private household consumption should be increased.



Construction of a skyscraper in China: Government grants and subsidies will remain an important driver of economic growth in the People's Republic. | Source: Tauno Tölk, flickr ©©.

14 | Cf. Yuanyan Sophia Zhang and Steven Barnett, "Fiscal Vulnerabilities and Risks from Local Government Finance in China", *IMF Working Paper*, WP/14/4, 2014, 9.  
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This realignment is facing significantly more difficult conditions than in the previous periods of development in Japan and the “tiger economies” in the Far East. Gross domestic product per capita (in real terms by purchasing power parity) in the People’s Republic today approximately corresponds to that of Japan in the early 1970s, Taiwan in the early 1980s and South Korea in the late 1980s. In other words, China’s economic output per capita is an average of three decades behind that of its neighbours. In Japan, South Korea and Taiwan, investment during the early stages of their economic development accounted for a maximum of approximately 35 per cent of gross domestic product. This exceeded investment in the Western industrial nations but is significantly less than China’s current investments, which account for about 50 per cent. In the neighbouring countries of the People’s Republic, investments in subsequent years began to decline significantly. Instead, it was the export economy that spurred growth. In addition, it is important to note private consumption in Taiwan, South Korea and Japan in these initial stages amounted to between 60 and 70 per cent of gross domestic product.<sup>15</sup> In China, the share of private consumption in gross domestic product has instead amounted to only about 35 per cent over the past few years.<sup>16</sup>

Unlike the situation of its neighbours at the time, the People’s Republic today has no hope of compensating for lower returns on investments by significantly increasing exports. This is because their primary customer bases in the U.S. and Europe are growing only very sluggishly, and China cannot count on any “export boom” being triggered in the medium term. Consequently, there is no alternative to significantly increasing private consumption.

15 | Cf. David Dollar, “China’s Rebalancing: Lessons from East Asian Economic History”, *John L. Thornton China Center Working Paper Series*, The Brookings Institution, 2013, 8.

16 | This number is partially contested by Chinese authors and they place it significantly higher. See Jun Zhang and Tian Zhu, “Re-Estimating China’s Underestimated Consumption”, 7 Sep 2013, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2330698](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2330698) (accessed 5 Jun 2014)

## Regional effects

**If China invests less, imports of raw materials and capital goods are also reduced. In such an event, the Asian supplier states can anticipate export losses.**

Beijing therefore inevitably sets the agenda for the other Asian economies. If China invests less, imports of raw materials and capital goods are also reduced. In such an event, the Asian supplier states can anticipate export losses. A decrease in demand by Chinese customers would have a significantly greater effect on most of the Asian countries than declines in trade exports to Europe, and the U.S. would because the People's Republic is the largest trade partner of the ten member states of the Association of Southeast Asian Nations (ASEAN). The same is true of South Korea, whose exports to China make up over 26 per cent of its total exports.<sup>17</sup> Even after significant losses, China remains Japan's second largest trade partner after the U.S.<sup>18</sup> The consumer goods industry in Asia would of course profit if private consumers' demand were to increase. However, the share of imports in end-use consumption in the People's Republic is comparatively low. And up until now, only a few Asian countries (in contrast with European car manufacturers, for example) have been in a position to supply the Chinese market with durable, high-quality consumer goods.

As a result, other Asian economies must also reduce their dependence on exports. However, unlike China in the past, they will only be able to compensate for potential declines in growth with higher investment to a limited extent. Still, this is contradicted by the fact that the U.S. is likely to gradually withdraw from its loose monetary policies over the next few years. As with the Indian rupee (2013), the currencies of Thailand, Indonesia and other Asian countries are expected to lose value against the U.S. dollar. Since many Asian governments have taken out loans in U.S. dollars thanks to low interest rates in recent years,

17 | Cf. "Record Share of Korean Exports Go to China", in *The Chosun Ilbo*, 28 Jan 2014, [http://english.chosun.com/site/data/html\\_dir/2014/01/28/2014012801579.html](http://english.chosun.com/site/data/html_dir/2014/01/28/2014012801579.html) (accessed 5 Jun 2014).

18 | Japan External Trade Organization (Jetro), "JETRO survey: Analysis of Japan-China Trade in 2013 and outlook for 2014", 28 Feb 2014, [http://www.jetro.go.jp/en/news/releases/20140228009\\_news](http://www.jetro.go.jp/en/news/releases/20140228009_news) (accessed 5 Jun 2014).

it will therefore be very difficult for them to meet their financial liabilities abroad. This drives up debt and reduces the financial latitude to make additional investments.

**Many Asian countries are pinning their hopes primarily on increasing domestic consumption. The purchasing power of private households should effectively ensure economic growth in the region.**

Therefore, many other Asian countries are also pinning their hopes primarily on increasing domestic consumption. The purchasing power of private households should effectively ensure economic growth in the region and prevent emerging Asian economies from being caught in a “middle-income trap”.

### HIGH SAVINGS RATES AS A STUMBLING BLOCK

Given the relatively positive economic development that has occurred in recent years and the impressive projections for consumption, one would actually have to assume the young Asian middle class, especially in the emerging markets, is “just waiting” to spend its money. According to a 2012 Boao Review survey on consumption patterns of the middle class in various Asian capital cities, however, there is a lack of confidence preventing this.<sup>19</sup>

Between 50 (New Delhi) and 70 per cent (Beijing) of survey respondents indicated they were “not optimistic” about their country’s continued economic development. The intention to “save more” of their household income in the future was expressed by 46 per cent of respondents. Only 13 per cent wanted to “spend more”. On average, respondents spent about half of their household income on subsistence, rent or mortgage payments, cars and travel costs; a further 30 per cent went to savings and the remaining 20 per cent was “invested”, which included securities and other forms of investment along with children’s education

19 | Cf. Tara Ouyang, “Report on Consumption Patterns among Asia’s Middle Class”, Boao Review, *2012 Boao Survey Report*, 6 Jan 2013, <http://www.boaoreview.com/plus/view.php?aid=131> (accessed 18 Jun 2014). Respondents were approached in Beijing, Hong Kong, Tokyo, Seoul, Singapore, Kuala Lumpur, Bangkok, Hanoi and New Delhi. According to the survey, representatives of the “middle class” were those with “some form of higher education”, earned an average annual household income between 5,000 and 10,000 U.S. dollars after tax, were employed in a “middle class job” (e.g. civil servants, managers, skilled workers) and “consider himself or herself a member of the mid-level of society in their home country”. DR © 2014. Konrad Adenaur Stiftung e. V.

expenses.<sup>20</sup> Thus, one-third of respondents to the Boao Review survey spent between eleven and 20 per cent of their annual income on school tuition, tutoring and student fees.

**In Beijing, three-quarters of respondents answered “an increase in the level of social security” would lead to greater consumption. In Tokyo, 46 per cent of respondents agreed with this assessment.**

When asked what would have to change in order for the middle class to spend more money on consumption and save less, respondents specified a reduction in housing costs and property prices as by far the most important influencing factor. In Beijing, three-quarters of respondents stated that “an increase in the level of social security” would also lead to greater consumption. In Tokyo, 46 per cent of respondents agreed with this assessment, in Singapore almost 41 per cent.

A telephone survey conducted by Eden Strategy Institute in March 2014 suggests the attitudes of the Asian middle class have fundamentally changed only very little even five years after the outbreak of the U.S. banking crisis.<sup>21</sup> Middle-income participants in India, the Philippines, Indonesia and Vietnam were approached for the survey. Among other things, they were asked to provide information about what they would do if their household income were to be doubled. In Vietnam (30.9 per cent), Indonesia (36.4 per cent) and India (24.4 per cent), the most common response given was “save it”. In the Philippines, 42.8 per cent of respondents answered they would save it. The desire for higher savings documented in the Philippines was, however, “only” the second most common response given, as most Filipinos (47.4 per cent), in contrast to the other countries surveyed, would use the extra income to start their own company or business.

20 | Savings for schooling and children's education were often considered as investments rather than savings in most Asian countries because the future “returns” are higher than the interest on a savings account or yields on securities. This is because a good education for their children comes with the promise of a well-paid job later, which will proportionally improve the parents’ (“investors”) financial situation (e.g. financial support by children when they reach retirement age). Education savings may be considered savings in this paper.

21 | According to: Eden Strategy Institute and the EMC Initiative, *Asia Emerging Middle Class Survey Report*, Singapore, 2014, <http://emergingmiddleclass.com> (accessed 5 Jun 2014).

The results of the Eden Strategy Institute survey provide no information as to why and for what purpose the Asian middle class would save their money (and would prefer to save even more with higher incomes). However, the respondents' concerns do provide a clue. The most frequent answer in all countries surveyed was the fear of health problems. In Indonesia, Vietnam and the Philippines, the fear of illness far outweighs other concerns, including losing one's social status, housing or friends. Only in India does the fear of losing one's job almost approximate the concern for one's own health.



In the Indian city of Nagpur, civil service candidates wait for their exam results: On the free market, a university degree is not a job guarantee. | Source: Ganesh Dhamodkar, flickr @©.

Of course, this is no "Asian phenomenon". The fear of illness also worries people in other parts of the world. However, the issue is seen as particularly devastating for the Asian middle class given the fact that, traditionally, the populations of many countries have been inadequately protected against illness. According to the Eden Strategy Institute survey (see table 3), more middle-income people in Vietnam have a credit card (33 per cent) than have private insurance (23.8 per cent). In Indonesia (16.6 per cent), India (21.5 per cent) and the Philippines (19.6 per cent) insurance is equally uncommon. The values recorded by the survey include all forms of private coverage through insurance policies combined. In addition to private supplementary insurance for illness, this would also include life insurance or general liability insurance. The share of

health insurance in total coverage through insurance policies would therefore be even lower than the values listed above.

Table 3

**Survey of the Eden Strategy Institute on the middle class in Asian emerging economies (in per cent)**

Question: If your household income were doubled, what are the top three things you would do with the extra money each year?

Country	Save it	House	Start a business	Educational	Food	Car/motorcycle	Mobile phone	Travel
India	24.4	20.5	21.4	21.8	15.3	19.5	20.3	17.7
Indonesia	36.4	18.0	28.5	22.1	10.2	16.7	14.1	10.5
Philippines	42.8	24.6	47.4	28.5	18.9	11.0	11.4	—
Vietnam	30.9	25.3	21.3	13.9	11.5	19.6	16.6	21.1

Question: What are you most afraid of losing?

Country	Health	Job	Savings	Friends	Social Status	House
India	21.8	18.4	15.0	15.3	16.6	12.3
Indonesia	37.6	18.4	7.3	16.2	10.2	9.1
Philippines	38.4	1.0	17.6	12.4	6.5	9.7
Vietnam	40.1	14.0	9.8	13.3	12.9	9.5

Question: Do you currently own one of the following things?

Country	Smart phone	Credit card	Private insurance	Loan payments
India	33.7	16.4	21.5	17.0
Indonesia	33.0	19.4	16.6	16.4
Philippines	57.9	14.8	19.6	19.3
Vietnam	44.2	33.0	23.8	15.4

Source: N. 21.

## SOCIAL SECURITY AND SAVINGS RATES

To summarise up to this point, Asian economies must increase their gross domestic product in the future to at least the current level in order to draw more people out of poverty and to overcome existing income disparities. However, further development is subject to numerous risks (weak exports, debt, lower returns on investments) and requires, also driven by China, economic models being adjusted in favour of increasing domestic consumption. The emerging Asian middle class takes on a supporting role in this process. While this population group's purchasing power and propensity to consume are increasing overall, the middle class is saving a substantial part of their income for private pensions and risk prevention.

Against this backdrop, Taiwan has highlighted how comprehensive statutory health insurance can impact the savings rates of private households. Between 1994 and 1998, the local National Health Insurance (NHI) was extended to cover almost the entire population (97 per cent). Chou, Liu and Hammitt (2003) have thus calculated savings rates among employees in the private sector as well as among the unemployed fell by 8.6 per cent to 13.7 per cent and consumption expenditure increased by 2.9 per cent to 3.6 per cent.<sup>22</sup> Chyi and Liu (2007) have essentially come to the same conclusions. Their analysis also takes into account unemployment insurance (1999) and pensions (2002) in Taiwan. The empirical model defines the population's savings accumulated for retirement or emergencies depending on the asset, the amount of fixed income and income uncertainties, for example, due to (impending) job loss. The latter would have significantly increased for all those in employment across all economic sectors after Taiwanese companies were permitted to invest in the People's Republic of China for the first time in 1990. According to the results of the study, private Taiwanese households will

22 | Cf. Shin-Yi Chou, Jin-Tan Liu and James K. Hammitt, "National Health Insurance and precautionary saving: evidence from Taiwan", *Journal of Public Economics*, Vol. 87, 2003, No. 9-10, 1873.

save demonstrably less if the government's social security schemes effectively reduce income uncertainty.<sup>23</sup>

This example corresponds to developments in South Korea. Unemployment insurance was introduced there in 1995. Statutory health insurance has been in place since 1977, initially for employees of larger companies, state officials and civil servants. By the end of the nineties, government health care was extended to all those in employment, including self-employed entrepreneurs and freelancers. Comprehensive pension insurance has been in place since 1999. Since then, the savings rate of private households has fallen from nearly 30 per cent to seven per cent in 2007.<sup>24</sup>

China has been gradually expanding its health insurance system since the early 1990s. By 2003, however, almost a quarter of the poorer rural households could not afford medical treatment. That same year, the government in Beijing responded with the New Cooperative Medical Scheme (NCMS). Cheung and Padieu (2012) have determined this particularly benefited the lower-middle class. They were able to reduce their savings rate and spend more money

**Under China's new medical scheme, private households must first pay for medical treatment themselves before being reimbursed for the costs.**

on consumption. However, the NCMS had very little or no effect on the upper-middle class (and above). This income group is partly privately insured against illness, especially in urban centers. In the bottom quarter of the income spectrum, however, the NCMS' impact on consuming power fell short. Even under the new system, private households must first pay for medical treatment themselves before being reimbursed for the costs. Thus, even the poorer sectors of the population must continue to save for emergencies. Furthermore, one cannot always be sure whether medical expenses will be fully or only partially reimbursed. In this respect, the NCMS has not been

23 | Cf. Yih-Luan Chyi and Yu-Lun Liu, "Income Uncertainty and Wealth Accumulation: How Precautionary are Taiwanese Households?", *Asian Economic Journal*, Vol. 21, 2008, No. 3, 301.

24 | Cf. Eswar Prasad, "Rebalancing Growth in Asia", *Finance & Development*, Vol. 46, 2009, No. 4, 21.

sufficiently able to reduce income uncertainties (in this case extra costs in the event of illness) in this population group.<sup>25</sup>

### **SOCIAL SECURITY AND PRODUCTIVITY**

The reasons why, Taiwan and South Korea, for example, have achieved better results with their social security systems than countries like the People's Republic of China (as yet) is not necessarily related to the fact that the Asian "tiger economies" have adopted more sustainable models. On the contrary: in terms of their basic design, the social security systems in the Far East, including China, along with Indonesia, Thailand, Malaysia, Vietnam and the Philippines emulate the "prototype", i.e. countries with high per capita income.<sup>26</sup>



The Sungkyunkwan University in Seoul: In order to entice the greatest number of people to invest in university studies, the population should see better income prospects in economic sectors with high qualification requirements than those in the informal sector. | Source: Adam Dongwoo Kim, flickr ©©©.

25 | Cf. Diana Cheung and Ysaline Padieu, "Impacts of health insurance on household savings across income groups in rural China", Oct 2012, [http://www.econ.brown.edu/students/alexander\\_oble/cheung.pdf](http://www.econ.brown.edu/students/alexander_oble/cheung.pdf) (accessed 5 Jun 2014).

26 | Singapore is the only country in Asia that, though it has achieved a high level of income, has practised a very different model of social security savings plan, the Central Provident Fund (CPF), since the mid 1950s.

**In South Korea and in Taiwan, social security systems were initially only catered to those employed in the formal sector. Freelance workers or farmers received only limited coverage.**

By the 1970s at the latest, i.e. well before democratisation, South Korea and Taiwan wanted to catch up with Japan's economic development and, in the process, the world market. At the time, the social security systems were initially designed as "two-tiered" systems: during the early stages of economic development, only those employed in the formal sector were entitled to benefits. This included employees of larger companies and civil servants, government employees and military members. Those employed in the informal sector, including independent small business owners, freelance workers and farmers, however, were either not covered or were covered to a very limited extent.

Although it was essentially about combating poverty, it did not include a greater degree of social security for the poor. It was a matter of growth and increasing income, not (or only indirectly and in the long term) a matter of overcoming income disparity. The goal was to diversify the economy and increase productivity. For this purpose, employee qualifications had to be significantly increased. In order to entice the greatest number of people to invest time and money in higher education and university studies, the population should see significantly better income prospects in economic sectors with high qualification requirements than those in agriculture or the informal sector, for example. The social protection concentrated on skilled workers, engineers and managers in the high-tech and export sectors (e.g. shipyards, hard drives, electronics, vehicle production) was therefore considered an attractive bonus compared to less productive sectors. Employees in large, internationally active corporations were clearly preferred over employees in small firms.

Just as in Japan previously, it was generally acknowledged that this development did not occur under the conditions of free trade. State subsidies, high tariffs and numerous non-tariff trade barriers provided advantages to the emerging industries in South Korea and Taiwan over their foreign competitors. As a result, the two "tiger economies" were able to expand the formal sector relatively quickly, accumulate more people working in jobs covered by social security, increase wages for large portions of the population

and significantly increase the share of domestic consumption in gross domestic product. Only with the democratisation in the late 1980s were the less privileged sections of the population able to enjoy the benefits of social security. However, initially both Taiwan and South Korea essentially retained their “two-tiered” model. Until the introduction of the comprehensive social protection systems mentioned above, the first step in expanding social security protection was to extend coverage to those employed in the formal sector. For example, employees of smaller companies were also included now. The informal and agricultural sectors, however, continued to be ignored for a long time.



Migrant workers in Thailand wait for medical treatment: Since 2001, medical care in public hospitals has become nearly free of charge in the Southeast Asian country. | Source: Ko Min Oo, ILO, flickr ©©©©.

Many other countries in the region, including Thailand, the Philippines and Indonesia, have adopted similar systems. Consequently, in the early stages of their economic development, only regular or formal employees in selected sectors, including civil servants and members of the military, were covered by the social security system. The entire informal and agricultural sectors in turn remained excluded. As with the case in Taiwan and South Korea, the situation has changed with democratisation. Thailand<sup>27</sup> has

27 | Once again, the military staged a coup in Thailand in 2014. Thus, unlike in South Korea and Indonesia, one cannot distinguish one individual phase of democracy in Thailand. ▶  
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had unemployment insurance since 2004. As of 2001, the medical care in public or state hospitals has become nearly free of charge (“30-Baht Scheme”). A pension scheme for civil servants and members of the military has existed since before the Second World War. By the turn of the millennium, the system was extended to all those in formal employment. People in Thailand below the poverty line have received a financial subsidy for medical care since 2009. Indonesia has introduced free medical care to poorer population groups in 2004. Since the late nineties, the Philippines have expanded their health insurance system to include employees in the informal sector (e.g. street vendors, small farmers), pensioners and the poor. The examples go on.

**People in Thailand below the poverty line have received a financial subsidy for medical care since 2009. Indonesia has introduced free medical care to poorer population groups in 2004.**

The problem lies in the fact that though many of the less-developed Asian economies have also improved their social protection systems in recent years, the increase in labour productivity has not kept pace with this development. As of now, only Japan, Singapore, South Korea and Taiwan approach the level of GDP per employed person as that in the U.S. or Europe. By contrast, labour productivity in Indonesia and the Philippines is only about a tenth of the GDP per employed person in Singapore.<sup>28</sup> In the most productive countries in Asia, the share of agriculture in value creation is correspondingly minimal. In contrast, this proportion in countries such as Nepal, (36.9 per cent), Cambodia (36.1 per cent) and Laos (29.1 per cent) is still quite high.<sup>29</sup> Along with growth, they continue to profit from their “demographic dividends”, meaning the proportion of people aged between zero and 14 years is comparatively high and the number of those over age 65 is low (Pakistan: 35 and four per cent, respectively; the Philippines: 34 and

Therefore, the 1997/1998 Asian financial crisis is used as a reference point here. It significantly increased pressure on the Thai government to implement social reforms. Speaking in very broad terms (!), a “transition” must be discussed here because, since 2005, the Thai Democrat Party, which is largely oriented toward the economy and the urban middle class, has defined social security as one of its main aims. Even in the late 1990s, when it was in government, the party had initially cut social spending as a result of the crisis in Asia.

28 | Cf. Asian Productivity Organization, *APO Productivity Data-book 2013*, Tokyo, 2013, 58.

29 | Cf. *ibid.*, 89.  
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four per cent, respectively).<sup>30</sup> Given the comparatively low labour productivity, this affects GDP per capita: of the countries analysed here, only Japan and the Asian “tiger economies” achieve five-figure amounts annually.

The benchmark figures outlined above correspond consistently with the level of social security.<sup>31</sup> In this respect, Japan is the leader of the pack ahead of South Korea and Singapore. Meanwhile, of the total of approximately 28 million people in Malaysia, the country’s social security system only covers about one million people.<sup>32</sup> Indonesia, Bangladesh, Laos and Cambodia are at the bottom of the table in terms of social security in Asia, while Indonesia could spend significantly more on social insurance measured in terms of GDP per capita.<sup>33</sup>

**Indonesia, Bangladesh, Laos and Cambodia are at the bottom of the table in terms of social security in Asia, while Indonesia could spend significantly more on social insurance measured.**

The question is: have the popular “two-tiered” social protection systems that have been gradually expanded worked, and will they remain promising in the course of further development in the region?

## CONCLUSIONS AND OUTLOOK

If domestic consumption is to play a much greater role in economic growth compared to government investment and exports for the entire region in the future, all the Asian economies must increase their expenditure on social security significantly. To put it simply, the requirements for this can be divided into two groups:

In Japan, the “tiger economies” in Far East Asia, China and Singapore and soon in Thailand as well, social security systems will be put under pressure due to rapidly ageing societies and longer average life expectancies. As in Europe, the costs of pensions and health care will inevitably rise

30 | Cf. *ibid.*, 44.

31 | With the exception of Mongolia and Uzbekistan, which provide their citizens with good social security and spend large amounts of state funds in doing so; this might be a relic of the former communist regime. In any case, the social systems there are disproportionate to GDP per capita and labour productivity.

32 | Cf. ADB, *The Social Protection Index*, Mandaluyong City, 2013, 30.

33 | Cf. *ibid.*, 13.

in these countries. This will place considerable burdens on the public purse for social security expenditures. If the states in question do not wish to sink further into debt, they will need significantly higher tax revenues. In order to do so, private households will have to contribute more. Substantial effort will be required to increase purchasing power and consumer demand. The economic reforms in Japan,<sup>34</sup> referred to as “Abenomics”, are currently the best-known example.

**Inflation supports Japanese exports because the weaker yen reduces the price of Japanese products in the global marketplace.**

The central idea of these reforms, which the Japanese government under Prime Minister Shinzo Abe has promoted, includes low interest rates and a massive expansion of the supply of money. This is meant to achieve an inflation level of approximately two per cent by 2015. Inflation supports Japanese exports because the weaker yen reduces the price of Japanese products in the global marketplace. At the same time, inflation and low interest rates are meant to boost consumption because high savings in anticipation of rising prices become less attractive. In hopes of this, the Japanese government increased the value added tax in April. Higher wages should compensate for the additional burden on consumers. The government in Tokyo hopes profits from companies in the export business and the stock market will be used to finance the salary increases. In addition, a reduction in corporate income tax is planned. Given the extremely high levels of government debt in Japan, “Abenomics” in such a configuration are certainly accompanied by numerous risks. In other Asian economies with a rapidly ageing population, these reforms will be followed with interest because Japan is responding to macroeconomic correlations that are relevant to China and South Korea.

For most ageing societies, we tend to observe savings rates decrease in the long term and the propensity to consume, as well as inflation, increase. The tertiary sector (services, commerce, transport, logistics, banking, etc.) particularly benefits from this. The secondary sector (manufacturing,

34 | Cf. Paul Linnarz, “Der ‘Ritt auf dem Tiger’. Hoffen und Bangen um Japans Zukunft”, KAS Country Report (German), 18 Oct 2013, <http://kas.de/japan/de/publications/35760> (accessed 18 Jun 2014).  
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energy, construction), however, loses. In the long term, the share of GDP in exports and investment correspondingly decreases. Due to inflation and the development of the labour market (fewer workers), wages and salaries increase. Consumption by private households thus plays a key role in economic growth and tax revenues used to finance social security systems. It offers the potential for new jobs, especially in the service sector. This is predicated on the fact that the economy adjusts to the changing demands of its ageing population. Capital-intensive sectors (e.g. steel and vehicle production, but also suppliers in the electronics sector) have to cope with losses over the long term, while the labour-intensive sectors of a “silver economy” – which includes the services on offer that have been adjusted to suit to the growing number of older consumers, including health, recreation, travel and insurance – gain in importance.



Keyword “Abenomics”: Low interest rates and an expansion of the supply of money build the core of the reforms of the Japanese government under Prime Minister Shinzo Abe, here with Commission President José Manuel Barroso and European Council President Herman Van Rompuy in June 2014 in Brussels. | Source: Christos Dogas, European Council, flickr ©①②③.

Also put simply, the second group includes countries with lower labour productivity in South and Southeast Asia. In order to sustainably combat poverty in those countries and to be able to provide the large number of young people with an adequate livelihood, the economy must continue its strong growth in the future. In order to be competitive internationally, more jobs in the secondary and tertiary sectors are necessary. As long as almost 60 per cent of the population in a country like India continue to work

in agriculture yet only contribute approximately 15 per cent of the country's gross domestic product, growth in labour productivity will only be inadequate at best and economic growth will inevitably continue to fall short of expectations. Even with new jobs in manufacturing and the service sector, the significant (and often still growing) income disparities can only then be overcome through regular employment. Currently, a large part of the labour force in South and Southeast Asia (India: roughly 80 per cent) instead still work in the informal sector, which is to say they usually work without a contract and without a regular income. Large portions of the population are therefore neither able to afford private health insurance, nor do they benefit from effective state protection.<sup>35</sup> People in rural regions must often walk great distances to receive medical care (in cities). There, the treatment is expensive. They must have financial savings to make up for the lack of health insurance, which in turn does not flow into domestic consumption.

**Many countries in South and Southeast Asia must establish a suitable framework for foreign direct investments and public-private partnerships. This includes a reduction in bureaucratic obstacles and combating corruption.**

Unlike, for example, Japan, South Korea and Singapore, many countries in South and Southeast Asia remain dependent on significant investments for additional regular (insurable) employment in the most productive possible areas of the secondary and tertiary labour sectors, for example, in the expansion of transportation infrastructure. The governments of the countries in question will only partially be able to shoulder this expense. Furthermore, they must establish a suitable framework for foreign direct investments and public-private partnerships. This includes a reduction in bureaucratic obstacles and combating corruption.

As a result, for many countries in South and Southeast Asia, "inclusive growth" and effective social protection of the population must be accompanied by a significant increase in labour productivity. Taken on its own, this means the

35 | Therefore, while there are 13.7 hospital beds for every 1,000 inhabitants of Japan (2009), the figure in the Philippines was only 0.5, while in India and Cambodia (2011) it amounted to only 0.7 beds per 1,000 inhabitants. Cf. World Bank, "Hospital beds (per 1,000 people)", World Bank Databank, <http://data.worldbank.org/indicator/SH.MED.BEDS.ZS> (accessed 18 Jun 2014).

expansion of the consumer base driven by demographic development (population growth) is not a long-term solution. On the contrary, the “jobless growth”<sup>36</sup> in recent years has even exacerbated income disparity and, in the process, endangers social stability. In the ageing Asian societies with high per capita incomes, increasing domestic consumption is paramount for long-term social protection.

As previously stated, this is only a very rough classification. After all, Japan is making significant efforts to improve its productivity, is planning labour market reforms, a reorganisation of its banking and energy sectors, as well as the establishment of special economic zones. And of course, China must also develop further in this direction, so household income increases and social security can be effectively extended to all segments of the population. But at the core of the issue lies the distinction between where the problems lie and why the “two-tiered” model of social protection will probably continue to dominate for a long time before the existing income disparities can be comprehensively overcome, and a financial middle class can be established in rural areas and not just in cities. This will understandably take many years because it requires considerable effort in terms of schooling and university education.

The savings of the young Asian middle class are not a sufficient basis for the required investments in the education sector. And, just as was demonstrated in South Korea, Japan and Taiwan several decades ago, those who receive a better education with government support must be presented with incentives to stay in their countries. These include secure prospects for pensions and confidence in government risk provisions. Instead, the number of Asian immigrants in OECD member states increased by almost ten per cent in 2010. In 2012, more than one million Filipinos emigrated to seek employment in the Gulf States, Singapore, Hong Kong and China. Every year since 2008, Sri Lanka has lost 250,000 workers; in Thailand that figure is 100,000. In 2011, 71 per cent of all temporary work permits for higher-value jobs in the United States were awarded to Asian applicants.<sup>37</sup> The upheavals in Northern

**Those who receive a better education with government support must be presented with incentives to stay in their countries.**

36 | Cf. ILO, n. 12.

37 | Cf. ADB Institute, *Labor Migration, Skills & Student Mobility in Asia*, Tokyo, 2014, 1 et seq.

Africa that have occurred since 2011 have demonstrated a lack of opportunity and frustration over the situation in one's own country, especially in very young societies, can result in less peaceful situations than simple emigration. Thus, time is of the essence!