1995

Social Security in the ASEAN: Is There a Southeast Asian Model of Welfare Capitalism?

M. Ramesh

Follow this and additional works at: https://ir.lib.uwo.ca/economicsperg_ppe

Part of the Economics Commons

Citation of this paper:
Paper No. 62

"Social Security in the ASEAN: Is There a Southeast Asian Model of Welfare Capitalism?"

M. Ramesh
The Political Economy Research Group was established in the faculty of Social Science at the University of Western Ontario in 1988. Its purpose is to foster scholarship, teaching and interdisciplinary research in political economy, with a focus on:

1. the application of economic models and methods to the study of political processes and institutions,
2. the economic impact of political processes and institutions,
3. the influence of economic factors on the formation of public policy and institutional change,
4. the politics of economic policy making,
5. the political, social, and economic effects of public policy.

Co-directors:
Ronald Wintrobe (Economics)
Robert Young (Political Science)

Board of Directors:
Peter Howitt (Economics)
B.B. Kymlicka (Political Science)
John N. McDougall (Political Science)
Peter Neary (History)
John Whalley (Economics)

Staff:
Jayne Dewar

For further information:
Political Economy Research Group,
Department of Economics,
Social Science Centre,
London, Ontario, Canada N6A 5C2
phone: (519) 661-3877
fax: (519) 661-3292
SOCIAL SECURITY IN THE ASEAN:
IS THERE A SOUTHEAST ASIAN MODEL OF WELFARE CAPITALISM?

M. Ramesh
Chair (Visiting) of Public Policy
Department of Political Science, UWO

Abstract
While the ASEAN countries have a broad range of social security programs for their citizens, the programs are for the most part inadequately funded and leave a large proportion of the population uncovered. The existing theoretical literature on social security does not adequately explain the evolution or character of social security in the ASEAN. But it does indicate that ageing of the population and spread of democracy will foster pressures for strengthening the social security system. These pressures will conflict with the need to keep taxes low to maintain investors' confidence. How the conflicts are resolved will depend on domestic political circumstances in each ASEAN country. However, it is unlikely that the pressures for or against expanding social security will be uniquely Southeast Asian in character.

The common impression of the countries in East and Southeast Asia is one of economic dynamos that have neglected social development. The constant outbursts against social security from ruling politicians in the region has done much to perpetuate this perception. This impression is, however, only partly true as these countries have a range of social security programs, though admittedly in weak and uncoordinated forms. The purpose of this paper is to describe such programs, evaluate them in the larger socio-economic context of each country, and indicate the course they are likely to take in the future. It will also examine the proposition that there is a unique Southeast Asian model of welfare capitalism, the fourth or even fifth (if Australia and New Zealand are accepted as constituting the Fourth World) world of welfare capitalism.

The term social security is understood in this paper to include, unless specified otherwise, income maintenance, health, and housing. Education is excluded on the ground that its purpose is to prepare one for the marketplace rather than to protect those who fail to generate sufficient income therein. Our definition is still broader than the one traditionally used in the literature. The ILO Convention No. 102 of 1952 lists only the following as the components of social security: medical care, sickness benefits, unemployment benefits, old-age benefits, employment injury benefits, family benefits, maternity benefits, invalidity benefits, and survivors benefits. We have added public housing to the list on the grounds that it serves significant social security functions in the region and is often seen by the region's politicians as a substitute for social security. The countries covered in this paper are Indonesia, Malaysia, Philippines, Singapore, and Thailand; Brunei is excluded because of its small size and unusual political and economic system.
SOCIAL SECURITY PROGRAMS IN ASEAN

All the main forms of statutory social security except unemployment and family benefits are available in the ASEAN countries under study in this paper. However, the programs vary considerably in design, eligibility conditions, and the level of benefits they afford, and involve varying levels of expenditure for their governments.

2. Share Of Total Government Expenditure, 1991 – Percent

<table>
<thead>
<tr>
<th></th>
<th>Social Security</th>
<th>Health</th>
<th>Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>n/a</td>
<td>2.77</td>
<td>1.96</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.28</td>
<td>5.61</td>
<td>6.73</td>
</tr>
<tr>
<td>Philippines</td>
<td>2.46</td>
<td>4.13</td>
<td>1.71</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.15</td>
<td>6.23</td>
<td>5.06</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.55</td>
<td>7.36</td>
<td>2.40</td>
</tr>
</tbody>
</table>


The significance of these figures is discussed in the following section, which also describes the social security programs that obtain in each ASEAN country.

INDONESIA

In Indonesia, pension for civil servants has been available since 1887 (Amiril, 1978). However, it was not until 1969 that the various schemes and regulations that had been established over the years in an ad hoc manner were regularized and turned into a broad social security package.

Indonesia’s expenditure on social security is very small. Indeed the government’s expenditure on income maintenance and social services is so small that it does not even appear as a separate category in its official statistics. Spending on health (2.77 percent) and housing (1.96 percent) is also small but not insignificant (IMF, 1993). There are separate social security schemes for civil servants, military personnel, and private sector workers. The programs for civil servants and military personnel are broadly similar and provide superior benefits than those available to their private sector counterparts.

Civil Servants and Military Personnel

There are three main social security programs for these employees of the government: endowment insurance (TASPEN for civil servants and ASABRI for military personnel), pension, and health care.

Eligible employees contribute 3.25 percent of monthly wages in premium to their individual endowment insurance policy. The scheme entitles the policy-holder to a lump
sum, calculated on the basis of accumulated contributions and returns to the fund, at the time of her/his retirement. The cash value of the policy is roughly equal to 3 1/2 months of the members’ last monthly wage. In case of death before retirement, it provides the insured sum to the survivor.

The old-age pension scheme provides benefits to those civil servants and military personnel who are at least fifty years of age and have been in service for at least twenty years. Eligible employees contribute 4.75 percent of their monthly wages to the scheme during the period of their employment with the government. The monthly pension is equivalent to 2.5 percent of the pension base (defined as the basic salary in the last month prior to retirement or death) for every year of pensionable service, with the maximum of 75 percent and minimum of 40 percent of the pension base. Disability benefit is set at 75 percent of the pension base. Survivor benefit is equal to 72 percent of the pension base in case of death before retirement and 36 percent after retirement.

The cost of providing pension benefits to civil servants and military personnel is considerably higher than the funds the scheme receives in contributions; the shortfall is met by the government out of its general tax revenues. Money is thus transferred from those outside the scheme to the employees in government service.

Health insurance has been available to civil servants since 1968. While contribution rates have been changed several times, in 1978 it was 3.89 percent of the wages, paid for entirely by the employee (Amiril, 1978, p. 12). Benefits are available to civil servants and pensioners as well as their spouses and children. In- and out-patient treatment can be received without charge at designated public and private clinics and hospitals. The scheme is quite generous in its coverage of illnesses and medical procedures.

**Private And Public Enterprise Employees**

Unlike the civil servants and military personnel, employees in the private sector and state enterprises do not have pension benefits available to them. Instead they have a minimal provident fund scheme (ASTEK), supplemented by death, employment injury, and health insurance schemes.

All firms employing more than one hundred employees or having a monthly payroll exceeding Rp 5 million are required to participate in ASTEK. The employer contributes 1.5 percent and the employee 1 percent of the worker’s earnings to the scheme. The contributions accumulate in the member’s account and the accumulated sum, plus returns to it, are paid out to the employee at the time of retirement. The low contribution rate coupled with generally low wages make for small balance in an average ASTEK account.

ASTEK’s membership is rather small, covering only about 5.5 percent of the labour force in 1991 (PT ASTEK, 1991, p. 21). This reflects the large number of Indonesian workers who work outside the formal sector and in small firms. Moreover, the benefits offered by the scheme are woefully inadequate. According to one estimate, an Indonesian private sector worker on average wage with twenty-five years service retiring at the age of fifty-five in the year 2004 would receive benefits (ASTEK + termination benefits) that would represent monthly income replacement ratio of only fourteen percent (Griffin, 1986, p. 228).

ASTEK is accompanied by a death and disability insurance scheme, to which the
employer contributes 0.3 percent of the worker’s earnings. As of July 1993, death benefits are set at Rp 1,000,000.

There is also a workmen’s insurance scheme funded from employer only contribution of between 0.24 and 1.74 percent of the wage, depending on the level of the occupation risk, of the worker’s earnings. The scheme now covers thirty-one sicknesses and diseases. The maximum reimbursement for work-related sickness or accident is Rp 3 million.

Employees in private and public enterprises and their spouse and up to three children are eligible for health care benefits. Participation in the scheme was voluntary until July 1993, when it was made compulsory. At the same time, contribution rate was reduced from seven percent to three percent for single employees and to six percent of the wages for employees with family. The scheme is funded from contribution of seven percent of the wages paid for by the employee. For calculation purposes, the minimum wage is Rp 20,000 and the maximum is Rp 200,000 a month. It covers costs of most in- and out-patient services. The service can be availed only from approved health service providers.

In February 1993, JAMSOTEK (Jaminan Sosial Tenaga Kerja, or social security for the workforce) was established to replace the existing social security programs (mainly ASTEK) for the private sector workers. The earlier programs were believed to provide inadequate benefits to insufficient number of people. JAMSOTEK’s emphasis in the short run is on reaching out to a larger number of workers rather than increasing benefits. The program provides for work injury insurance scheme funded entirely by employer contribution. The health insurance scheme is to be funded from employee’s contribution of between three and six percent of the wages. The old age insurance scheme is to be funded by a contribution of 5.7 percent of wages by employees. Finally, there is to be a life insurance scheme which requires a payment of 0.3 percent of the wages in premium by employers.
Concluding Observations

The coverage of social security in Indonesia is narrow and the benefits meagre. Of the total covered, fifty-three percent are in either civil or military service, indicating that social security is not widely available to the general population. Moreover, the benefits available to those in the civil service and military are more generous compared to their private sector counterparts, not to mention the vast majority who are not covered by any scheme. This is doubly inequitable because those not covered work in small firms or in the informal sectors where wages are generally low and therefore are more likely to be in need for social protection. The recent changes reflected in the establishment of JAMOSTEK are steps in the right direction, but they are not likely to be sufficient because a large proportion of the population continues to remain uncovered.

MALAYSIA\footnote{The discussion on Malaysia relies heavily on Asher, 1993.}

Malaysia has a more developed social security system than Indonesia. The arch-stone in the system is the Employee Provident Fund (EPF), supplemented by the Social Security Scheme (SOCSO). The Malaysian government’s expenditure on income maintenance, health, and housing form about 17 percent of its total expenditure (IMF, 1993).

The Employee Provident Fund

The EPF, established by the colonial administration in 1951, is a provident fund scheme covering all employees except those whose employment is of casual or part-time nature. It is essentially a forced savings plan whereby both employer and employee contribute to an account set up for each eligible employee in Malaysia. The rate of contribution to the EPF has increased gradually over the years, rising faster for the employer than for the employee. Since January 1, 1993, the contribution rate has been 10.0 percent of the wage for the employee and 12.0 percent for the employer. The accumulated fund plus interest in the account is returned to the member at the time of her/his retirement. Contributions to the EPF, interest accruals, and all withdrawals are exempt from income tax.

Withdrawal of funds from one’s EPF account is allowed for a variety of purposes. Full withdrawal can be made following retirement, death, physical or mental incapacitation, or emigration overseas. Partial withdrawal can be made for various purposes, the most prominent of which is purchase of housing.

There is a large discrepancy between the number of EPF members and contributors, though the difference has been eroding gradually. In 1991, only about half of the members were active contributors. The share of total employed and total labour force contributing to the EPF scheme has also been rising, though more than half the employed as well as labour force remain uncovered.

Employment Injury and Invalidity Benefits Schemes

This is an employment injury and invalidity benefits scheme established by the Employees’ Social Security Act 1969 (SOCSO). All employers, including those in religious
and educational institutions, employing one or more employees are covered under the Act. The Act, however, applies only to those employees with earnings of less than M$2,000 per month. Once an employee is covered, s/he continues to stay covered, even if the earnings exceed M$2,000 per month in subsequent years. The main groups exempted from the scheme are casual workers and domestic servants. In 1990, SOCSO membership added up to 4.58 million.

The contribution rate for the Employment Injury component of SOCSO is approximately 1.25 percent of wages and is paid wholly by the employer. For the Invalidity Pension component, the rate of contribution is 1.0 percent of wages shared equally between the employer and the employee.

Under the Employment Injury Scheme, SOCSO provides temporary disability benefit consisting of daily payment subject to a minimum of M$8 per day; permanent disability (either a lump sum or periodic pension); constant attendance allowance; rehabilitation, artificial limbs and other appliances; dependents' benefits (a pension for widow until remarriage and children until they reach 21 years of age); funeral benefit (M$1,000); and benefits for occupational diseases. The Invalidity Pension Scheme provides coverage against death or invalidity irrespective of how, where, or when it occurs. To be eligible, at least twenty-four monthly contributions during the forty months period prior to the notice of invalidity must have been made. Full pension is fifty percent plus one percent for every twelve contributions over and above the basic twenty-four contributions, subject to a maximum of 65 percent. There is also provision for reduced pension for partial permanent disability. In addition, the scheme provides for constant attendance allowance, artificial limbs and other appliances, funeral benefit, and survivors' benefit.

Sickness and Maternity Benefits Scheme

This scheme is a non-contributory scheme based on the Employment Ordinance of 1955. It requires covered employers to grant sick and maternity leave and pay maternity allowance. However, the scheme does not provide for medical care. Moreover, it excludes government employees, including those employed by statutory bodies and local authorities, domestic servants, and seamen from coverage.

Old Age Pension Scheme

In Malaysia, there are two groups of government employees in federal and state governments, and in statutory bodies: pensionable and non-pensionable. Pensionable employees contribute to EPF for ten years, at which time they become eligible for pension. It is a non-contributory scheme whereby when a pensionable employee retires or dies, accumulated contributions plus accrued dividends are released to the Pensions Trust Fund. The contingent liabilities assumed by the government under the scheme has led it to tighten the eligibility conditions so as to restrict the number of employees enjoying pension benefits.

Health Care

Malaysia's health care system provides basic medical and hospital services at a nominal charge to the entire population. While private medical facilities exist, an overwhelming majority of the population relies on the public system. There is a great
regional disparity in the quality of health service available, largely because of concentration of services in large urban areas and general undercapitalization of the sector. Public health care expenditures have increased drastically in recent years, more than doubling between 1989 and 1994. The trend is expected to continue, which has prompted the government to consider reforms that would recover a greater percentage of the costs through user charges.

**Concluding Observations**

Malaysia has a comprehensive social security system, established for the most part during the British colonial rule, covering a wide range of contingencies. Its main weakness is inadequate coverage of the population, as more than half the population remains uncovered by the main programs. Even among those who are covered, a large proportion have inadequate balance in their account to meet their financial needs during retirement. In 1991, about two-thirds of the active members had balances below M$10,000, which is insufficient for the twenty or so years that one may expect to live after retirement. However, the problem will ease somewhat for the new entrants to the labour-force because of higher salaries that may they may expect and the higher rate of contribution they are obliged to make. Another problem that will continue to mar social security in Malaysia is the income disparities it perpetuates. About one percent of the top EPF members account for 16.81 percent of total balances. Those with low EPF balances are often those with low wages, and hence low savings, exactly the sort of people who need social protection.

**PHILIPPINES**

Social security programs in the Philippines are among the oldest and most comprehensive in Asia. However, the government’s social expenditure is rather small because of the programs’ reliance on social insurance mechanism for funds. The government spends 2.64 percent of its total expenditure on income maintenance, 4.13 percent on health, and 1.71 percent on housing.

**Social Security System and Government Services Insurance System**

The two main social security schemes in Philippines are Social Security System (SSS) for workers in the formal private sector and Government Services Insurance System (GSIS) for government employees. The SSS was established in 1954 and GSIS in 1937, though the latter provided only compulsory life insurance until 1951. The two schemes offer broadly similar range and level of benefits and provide for most types of contingencies covered by similar programs in the developed countries.

SSS covers workers in the private sector — except seasonal agricultural labourers, fishermen, domestic servants, casual labourers, and other similar workers — as well as the self-employed earning more than Peso 1,800 per year. On 31 December 1990, SSS covered 12.1 million workers and 0.4 million self-employed. GSIS covers all government employees, including those in government owned or controlled firms. Judges and armed forces personnel have their own retirement schemes which are administered by the GSIS.

For the social security component of SSS, the contribution rate is set at 5.07 percent of the Monthly Salary Credit (MSC) for the employer and 3.33 percent for the employee. For the self-employed, the contribution rate is eight percent of the earnings. GSIS requires
higher contribution, which is set at 18 percent of the wages for the first P3,000 per month, and 12.5 percent thereafter. Of this, the employee’s share is 8.5 percent of the wage and employer’s 9.5 percent (World Bank, 1992).

SSS and GSIS consist of the following sub-schemes: old-age retirement benefits, survivor benefits, disability benefits, sickness benefits, maternity benefits, and funeral benefits. In addition, GSIS also offers a compulsory life insurance scheme.

Old-age retirement benefits are available to members who are at least sixty years old, no longer in employment, and have made at least 120 monthly contributions. The monthly pension amount is tied to the members’ wage. Minimum monthly pension is P1,200 or forty percent of Average Monthly Salary Credit, whichever is higher. Dependents’ pension equivalent to ten percent of monthly pension for each of up to five dependent children is also available. In case of less than 120 monthly contributions, the accumulated contributions are paid out in lump sum with six percent interest.

Survivor pension in the event of the member’s death is paid to members’ dependents if 36 monthly contributions have been made. The survivors pension amount is computed in the same manner as the retirement pension, except that the minimum benefits is P1000 for those with ten years of contribution. Surviving spouse and dependent children receive one hundred percent of the monthly pension. If the member dies without qualifying for old age pension, the beneficiaries receive the basic survivor pension for thirty month.

The eligibility conditions and benefit amount for disability pension in the event of total permanent disability is the same as those for survivor pension.

To be eligible for sickness benefits, the member must be sick for at least four days, exhausted company sick leave credits, and made at least three monthly contributions in the preceding twelve months. Daily sickness allowance (DSA) is ninety percent of the average daily salary credit, with the minimum DSA being P10 and maximum P150. The benefits can be received for a maximum of 120 days in a calendar year.

Maternity benefits are available for birth, miscarriage or abortion. To be eligible, the member must have made three monthly contributions in the preceding twelve months. Benefit is 100 percent of ADSC for forty-five days. The benefits are paid towards only 4 deliveries, but there is no limit for miscarriage or abortion.

The compulsory life insurance scheme available to GSIS members only is similar to a commercially-available insurance policy, except that premiums are tied to wages, which in turn determines the cash value of the policy. The policy matures at the time of retirement. In case of death before retirement, the insured sum is paid out to the survivor.

The funeral benefits consist of lump sum payment P6,000.

Medical Insurance

Medical insurance was adopted in 1969 and implemented in 1972. The Act requires SSS and GSIS to establish medical insurance funds for their members. Old-age pensioners and their dependents were included in May 1990, and survivor and disabled pensioners and their dependents in January 1991. There is a third medicare scheme, administered by the Philippines Medical Care Commission, for those not covered by the GSIS or SSS. Together the schemes cover all employees (including temporary and contractual employees), pensioners, and those separated or retired from service so long as they elect to continue
membership within 60 days of retirement or separation. The dependents are also covered so long as the total hospitalization for all dependents does not exceed forty-five days each year. While the funds are separate, they involve similar rates of contribution and benefits. Both employer and employee each contribute 1.25 percent of the wages toward medicare (World Bank, 1992, p. 23). To be eligible for receiving benefits, the members must have made three monthly contributions during the preceding twelve months. The schemes provide the following benefits: hospitalization, surgical, and medical expenses. Cosmetic surgery, dental, optometric and psychiatric services are excluded.

**Employee Compensation**

The Employees’ Compensation insurance came into effect on January 1, 1975. The scheme, which is operated by SSS and GSIS for their respective members, provides income maintenance and hospitalization benefits to eligible workers. The worker must be under sixty years old and the stipulated contributions must have been made by the employer on his/her behalf. The contribution rate has been set at one percent, paid entirely by the employer.

The scheme provides income maintenance and medical services to members suffering from work-related injury or sickness. In case of temporary disability, it provides cash benefits for up to 240 days. The benefit amount is set at ninety percent of average daily wage during the six months with highest salary during the preceding twelve months. The minimum benefits is set at P10/day and the maximum at P150/day. The benefits are payable from the first day if disability is due to accident and after a three-days waiting period in case of sickness.

In case of permanent total disability, the scheme provides 115 percent of monthly old age pension, guaranteed for five years. Up to five dependent children under twenty-one years of age receive 10 percent of the member’s pension amount. In case of permanent partial disability, it provides 115 percent of monthly old age pension, but the duration of benefit is adjusted according to the level of disability. A supplemental pension of P350/month is paid to pensioners with permanent total and permanent partial disability.

**Concluding Observations**

Philippines has a broad-ranging social security system by ASEAN standards providing benefits for a range of contingencies. It also offers uniform levels of benefits to various categories of employees and involves the least inequity between private and public sector workers among the ASEAN countries.

Its main shortcomings pertain to inadequate coverage of the population and inadequate levels of benefits. In 1990, only 58.2 percent of the labour force and 64.5 percent of the employed persons were members of either GSIS or SSS. The number of actual contributors to either scheme was even lower, as only 22 percent of SSS members were contributing to the fund (World Bank, 1992, p. 20). Even among those who are covered, many will not receive any benefit because of failure to meet various eligibility criteria. Slightly more than half of the recipients of retirement pension under SSS receive minimum benefits, as do almost two-thirds of the recipients of SSS survivor benefits (World Bank, 1992, p. 29).

**SINGAPORE**
Singapore has a rather simple yet broad-ranging social security system. The arch-stone of the system is the Central Provident Fund (CPF), supplemented in minor ways by other schemes. The share of Singapore government’s total expenditure on income maintenance (2.15 percent) is slightly less than in other ASEAN countries and on health (6.23 percent) and housing (5.06 percent) somewhat higher (IMF, 1993).

CPF came into effect in 1955, when Singapore was still ruled by the British. While it was originally designed to provide retirement income to its members, its scope has been broadened over the years to include medical benefits and public housing as well. In 1991, contributors to CPF (that is to say, those actively contributing to the scheme) accounted for slightly more than two-thirds of the labour force and one-half of the resident population.

The rates of contribution to the CPF remained unchanged between 1955 and 1968, but have since been revised several times. The peak was 1984 when the contribution reached 50 percent of the wages, shared equally between the employer and employee. Currently both employers and employees contribute 20 percent of the wages to the scheme.

Contributions are channelled into three separate accounts maintained for each member: Special, Medisave, and Ordinary. The Special account is the component of CPF meant for accumulating funds to finance members’ retirement. The Medisave account, which was launched in 1984, is designated for building members’ savings earmarked for paying for their health expenses. It sets aside six percent of one’s monthly wage to be used for payment for hospital care of the account-holder and his/her immediate family, except siblings. In contrast to the Special and Medisave accounts, funds in the Ordinary account are meant for a variety of purposes, only a few of which are related to extending social protection to the CPF member.

A member can withdraw accumulated CPF savings in the Ordinary and Special accounts at the age of fifty-five. Since 1987, however, members have been required to leave a set amount considered necessary for funding their retirement in the account. This amount can be used to buy an approved annuity, deposited with an approved bank, or retained with the CPF Board.

Withdrawals from the Ordinary Account permitted before the age of fifty-five may be grouped under home ownership, investment, insurance and other purposes. To encourage home ownership, Approved Housing Scheme (AHS) was set up in 1968. It allows members to use CPF savings to buy government-built flats, an opportunity taken up by more than 700,000 Singaporeans since it has been available. There are four investment schemes available to CPF members. They allow members to use the funds beyond the minimum set aside for retirement for investment in stocks and non-residential property. The objective is to allow members to invest their CPF funds in instruments yielding higher returns than the interest paid by the CPF.

Three types of insurance are also being operated under the CPF scheme. The Home Protection Insurance Scheme provides mortgage insurance for members who have purchased public housing with their CPF funds. Second, the Dependent’s Protection Insurance Scheme (DPIS) is an optional scheme that provide insurance for a fixed sum of $30,000 against death or permanent incapacity before fifty-five years of age. About one-tenth of the active contributors to the CPF have opted out of the DPIS scheme. Third, an insurance scheme called Medishield has been available since 1990 to allow members under seventy years old to
pay for the hospitalization bills for specified ailments. About 88 percent of active CPF contributors, representing close to half the population, are participating in the scheme. The scheme is run along commercial lines with no allowance for cross-subsidization based on ability to pay.

In addition to the CPF-based schemes, there is also public assistance available to the needy. However, this is a meagre scheme that provides paltry assistance based on strict means test. In 1989, only 53.0 percent of the total who applied for public assistance were successful (The Straits Times, March 24, 1990). The current public assistance rates are below the minimum Household Expenditure (MHE) covering only the basic items calculated by the Government's Chief Statistician. In 1992, a family of three adults received $270 per month, while a family of one adult and two children received $345 (The Straits Times, Singapore, February 26, 1991). The amount represented only 6.4 percent of the per capita GNP in 1990.

Concluding Observations

The CPF scheme is remarkable for its simplicity and positive contributions to economic development. Being essentially a savings scheme, it involves low administration cost. It also avoids the cost of risks associated with social insurance programs. More importantly, the high rate of contributions it requires from both employer and employee have played a key role in making Singapore the country with the highest savings rate in the world. In 1985, when contribution rates were at their peak, CPF contributions formed 36.2 percent of gross national savings.

The strengths of the CPF are offset somewhat by serious shortcomings. Casual, part-time, and domestic workers -- in other words, those usually with the lowest wages -- are not protected. Second, many among those approaching retirement can be expected to face financial difficulties during their retirement. About two-thirds of the contributors in the 45-49 and in 50-54 age groups, that is those approaching retirement, have balances below S$60,000, which is insufficient for the 20 or so years that an average Singaporean can expect to live after retirement. Third, the CPF is highly inequitable to the extent benefits flow disproportionately to those with higher income because of exemption of contributions from income tax.

THAILAND

Thailand has the newest social security system among the ASEAN countries, even though it was the first to consider its introduction. Efforts to establish social security by several governments since the 1930s founderd against opposition from conservative elements in the army, business, and even organized labour (Reinecke, 1993). In 1991, the government spent 3.97 percent of its total expenditure on income maintenance, 8.15 percent on health, and 2.17 percent on housing (IMF, 1993).

The first social security program to be established in Thailand was the Workmen's Compensation Fund in 1972. The scheme is funded from employer-only contribution ranging from 0.2 to 4.5 percent of the wages (Hitz, 1992). A modest Health Care Program for the poor was launched in 1975. Finally, after decades of wavering, Social Security Act was passed in July 1990. The Social Security Act provides for injury and sickness, maternity, invalidity, funeral, old age, and family benefits.
All firms with 10 and more employees are covered under the Act. The program will be expanded to include the self-employed in 1995. In March 1992, there were 31,223 enterprises and 3,340,000 workers participating in the Social Security Scheme (Reinecke, 1993, p. 93). Since the scheme is based on employment, it excludes more than 40 percent of the population that is outside formal employment.

The rate of contribution to the social security scheme is set at 4.5 percent of the wages, shared equally between employer, employee, and the government, each of whom pay 1.5 percent (Hertz, 1992). The rates will be increased to 4.5 percent each in 1996, and 9.5 percent each after the unemployment benefits come into force (Reinecke, 1993, p. 89).

The benefits provided and the date when they are planned to begin are shown in the following table: (Reinecke, 1993, p. 88)

<table>
<thead>
<tr>
<th>Type of Benefit</th>
<th>Contribution Start</th>
<th>Benefits Start</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sickness</td>
<td>March 1991</td>
<td>June 1991</td>
<td>Free medical treatment at designated hospitals. Compensation for the loss of income: 50 percent of the wage, limited to 90 days per sickness and 180 days/pa</td>
</tr>
<tr>
<td>Maternity</td>
<td>March 1991</td>
<td>October 1991</td>
<td>Child delivery expense for the insured or spouse; 50 percent of wages for 60 days as compensation for loss of income for the insured woman to the maximum of 2 children</td>
</tr>
<tr>
<td>Temporary non-work related disability</td>
<td>March 1991</td>
<td>June 1991</td>
<td>Cost of medical treatment at a designated hospital. Compensation for the loss of income: 50 percent of the wage for a maximum period of 15 years</td>
</tr>
<tr>
<td>Death (non-work related)</td>
<td>March 1991</td>
<td>April 1991</td>
<td>Lump sum funeral benefits</td>
</tr>
<tr>
<td>Old-age pension</td>
<td>Sept 1996</td>
<td>Sept 2011</td>
<td>Not yet determined. Will be wage-dependent</td>
</tr>
<tr>
<td>Unemployment benefits</td>
<td>Not yet determined</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From March 1991 to March 1992, the social security system collected Baht 4.13 billion (excluding the government’s contribution) in contributions and disbursed Baht 1.33 billion in benefits. Of the total amount paid out, most of it (Baht 1.26 billion) went to sickness and accident benefits (Reinecke, 1993, p. 97). This can be expected to change after the old-age pension scheme comes into operation in the year 2011. In Thailand, the civil servants and public sector employees are best looked after, receiving 916 Baht/person in
health care alone. About 300,000 government employees also benefit from publicly funded pension schemes, at the cost of Baht 30 billion to the tax-payers (Business Times, September 30, 1994, p. 17).

**Concluding Observations**

Though late in establishing, Thailand now has a reasonably well-designed social security system which is planned for further strengthening in the next several years. The premiums are set at realistic levels to keep the schemes self-financing. They also promote relatively small inequity because the income-maintenance components tied to wages are still small. This will change with the beginning of the old-age pension scheme which will disburse benefits in proportion to one's wages. The target date of 1911 for implementing old-age scheme is unfortunate because the aged will continue to remain unprotected for many years to come. Like their other ASEAN counterparts, civil servants and military personnel are protected much better than the rest of the population, raising crucial equity issues.

**UNDERSTANDING THE PAST AND PREDICTING THE FUTURE**

There is an enormous literature on the welfare state in the industrialized countries which could be cautiously relied upon for pointers to understanding social security in the ASEAN. The mainstream literature on the subject can be categorized broadly according to their focus on functionalist, structuralist, societal, or statist factors for explanations of social security. A quick review of the factors mentioned in these perspectives will shed light on the origin of social security programs in ASEAN and indicate the likely course of their future development.

**FUNCTIONALIST EXPLANATIONS**

There are two types of functionalist explanations found in the literature: marxist and non-marxist. The non-marxist variant explains cross-national differences in social security in terms of level of economic development, industrialization, or modernization (Cutright, 1965; Rimlinger, 1971; Wilensky, 1975). Such explanations hinge on the assumption that modern economic and social processes create a "need" for social security by breaking down traditional arrangements which is eventually met by the state, not the least because the newfound economic prosperity makes it possible to afford the increased expenditure. The marxist explanations in this mould emphasize not economic development or industrialization *per se* but the imperatives of capitalism and/or market which lead states to establish social security programs (O'Connor, 1973; Gough, 1979; Therborn, 1987).

**Wealth, Industrialization, Urbanization**

One of the most widely-held beliefs in social sciences revolves around the conclusion that increasing economic prosperity, industrialization, and urbanization lead to expansion of statutory social security. The question of interest to us is if the argument applies to the ASEAN countries. Social security in the region has certainly expanded in recent years, but there is little evidence to suggest this was shaped by economic development and a lot of evidence indicating it was not.

By any functionalist criterion, Singapore should have the most comprehensive social
security in ASEAN. It is the richest and most urbanized and industrialized country in the region. Indeed it is more advanced than many industrialized country along these dimensions, yet it is Malaysia and Philippines that have more developed social security systems. Even Thailand has decided to move ahead with establishing a social security system that would soon surpass that of Singapore in its commitment to affording social protection to its population.

The disparities in the income levels of ASEAN countries also do not correspond to the variations in the patterns of expenditure on social security. Singapore’s per capita gross national product in 1992 was US$ 15,730, which was almost twenty-four times that of Indonesia (US$670) and five times that of Malaysia (US$2,790)(World Bank, 1994).

Similarly, the island-state has almost no primary sector, while the other ASEAN countries depend heavily on this sector. About half of the labour force in Indonesia, Philippines, and Thailand are employed in agriculture, and almost a quarter in Malaysia (Asian Development Bank, 1993). Thus all ASEAN countries except Singapore are primarily agricultural economies in which the aged work according to their physical abilities, which reduces the need for state support for the elderly.

Patterns of urbanization correspond with patterns of dependence on agriculture. Almost the entire Singapore population lives in urban areas, whereas less than half of the population of other ASEAN countries reside in urban areas (Asian Development Bank, 1993). Rural societies tend to look after their needy within the family or community and thus generate lesser demands for state support. Despite all these conditions supposedly favouring the expansion of social security, Singapore continues to be a laggard.

However, it cannot be entirely denied that industrialization and urbanization do increase the need for statutory social security, a need that is possible to meet if the processes have been accompanied by increased economic prosperity. As the ASEAN societies become more prosperous, it will be increasingly difficult for governments to refuse to look after the aged and the sick without access to traditional forms of support.
Ageing

If industrial development and urbanization do not explain the similarities and differences across the social security policies of the ASEAN countries, nor do demographic trends. As predicted by the functionalist theorists, industrialization has indeed been accompanied by declining birth rate and increasing life expectancy, the result of which has been increasing proportion of aged in the society. Consistent with its level of industrialization, Singapore has the lowest population growth rate (1.6 percent), highest life expectancy (74.3 years at birth), and the largest proportion of aged in the region (6.1 percent). In 1990, the proportion of aged in society was more than twice that in Indonesia and substantially higher than in other ASEAN countries (United Nations, 1994). But these patterns are inconsistent with the patterns of expenditure on social security in the region.

Ageing of the population will have perhaps the strongest effect on shaping social security in the future. The ASEAN countries will age at a rate much faster than what has been experienced in Western countries. The number of the aged will almost double in Indonesia and Thailand, and increase by 75 percent in Malaysia, Philippines, and Singapore between 1980 and 2000. There will be 13.4 million more elderly in the ASEAN in the year 2000 than was the case in 1980 (Chen, 1989, pp. 15-16). In the year 2030, Singapore is projected to have the highest median age (38 years) in the world. About 20 percent of the aged in ASEAN are, and will continue to be, over 75 years old, an age bracket which consumes substantially more resources than other age groups (Chen, 1989, p. 26).

Among the aged, the proportion of women is expected to exceed men. This will be specially problematic because of women’s generally weaker financial situation. The problem is compounded by the fact that a larger proportion of aged women than men tend to be widowed or divorced. In ASEAN, 56.84 percent of the aged (60+) women are widowed or divorced, compared to 16.4 percent of the men (Chen, 1989, p. 29).

The rapidly increasing number and proportion of the aged, and the greater proportion of widowed and divorced women and the very aged among the elderly population will pose new challenges for policy-makers. It would be politically difficult to ignore their needs because of the tremendous voting power they are likely to wield. Even if the cultural attributes of ASEAN societies favour looking after the aged by their families, there will be a substantial number of people who will lack the financial capacity or emotional commitment to look after their elderly family-members. Such people will have to be looked after by the state through statutory social security programs.

INTERNATIONAL EXPLANATIONS

Another way to explain social security is to see it as being shaped by international structural factors. While the application of this approach to social policy is rare (Clark, 1991), proponents of World Systems Theory make a general argument that the structure of the world economy severely restricts the peripheral countries’ policy options (Chase-Dunn, 1988; Ross, 1990; Wallerstein, 1979). Since expenditure on statutory social programs reduces profits, it is implied that peripheral nations are limited in their ability to establish and expand social security.

The ASEAN countries are some of the most trade-dependent nations in the world. In Singapore, foreign trade forms 373.83 percent of Gross Domestic Product, which makes it
the most trade-dependent nation in the world. The value of Malaysia’s foreign trade is also larger (156.06 percent) than its GDP. Even in the least trade-dependent nation in the region, Indonesia, the value of foreign trade is equal to half of its total GDP. The level of trade dependence is not, however, in conformity with the ASEAN governments’ social security expenditure. By this criteria Singapore should have the weakest statutory social security and Indonesia the strongest, which is clearly not the case.

Another line of structural reasoning suggests the opposite. It is argued by some that small open economies tend to have higher expenditure on social programs because of their citizens’ greater need for protection against the insecurities imposed by the world economy (Cameron, 1978; Katzenstein, 1984). While this may be a plausible interpretation of the situation in small European countries, it clearly does not apply to Southeast Asia. In fact, one must wonder why states will automatically establish social security programs to offset the insecurities imposed by the world economy. Even in Europe, it was domestic political pressures that pushed states to devise policy measures to protect their citizens from adverse effects of the world economy.

Dependence on foreign investment is also said to constrain states’ ability to establish and expand social security programs. The imperatives of attracting foreign investment restrict nations’ ability to tax corporate profits and, as a result, finance social security. All ASEAN countries are highly dependent on foreign investment. What is even more remarkable about these countries is their reliance on foreign direct investment (FDI) more than indirect forms of investment. FDI accounts for between 33.9 percent (Singapore) and 2.0 percent (Indonesia) of gross fixed capital formation in the ASEAN (United Nations, 1994). Direct investment is regarded as especially restrictive as far as national governments are concerned because of the investors’ direct stake in the investment and public policies affecting returns on it. Their local presence also affords them the opportunity to lobby host governments for favorable policies.

While it is difficult to test this hypothesis with any degree of certainty, there is prima facie evidence to support its plausibility. ASEAN leaders in their race to attract foreign investment constantly admonish against programs that might scare foreign investors. Recently, Singapore lowered its highest corporate tax rate from 32 to 25 percent on the grounds that it was too high compared to Hong Kong and therefore had to be reduced. Business leaders in the Philippines and Thailand constantly warn of the adverse consequences of what they perceive as overly generous social security systems in their countries.

**SOCIETAL EXPLANATIONS**

Some scholars explain the development of social security as a state’s response to pressures exerted by societal groups, classes, voters and/or the national culture.

**Labour Mobilization**

Among the society-centred explanations, the “labour mobilization” approach explains the origin and level of social security in terms of the role played by working class movements and their political representatives in forcing recalcitrant governments to adopt policies that advance the interests of labour (Esping-Andersen, 1990; Korpi, 1983; Myles, 1989). A more radical (marxist) explanation in this genre emphasizes class conflicts as the
guiding force behind the emergence of social security (Navarro, 1991).

The level of unionization in ASEAN has been low, as has the level of industrial unrest. The rate of unionization in Singapore is seventeen percent, which makes it the most unionized labour force in the region. It is followed by Malaysia at about fifteen percent, and Indonesia and Thailand at less than five percent. Among the unions that do exist in the region, either they spend most of their energy on mere survival or have been co-opted by their governments (Frenkel, 1993). The incidence of industrial strikes and lockouts in all ASEAN countries except Philippines is almost insignificant (International Labour Office, 1994). Trade unions in the ASEAN have thus not been in a position to pressure their governments for a stronger social security system.

Marked income disparities is said to foster higher level of class consciousness, which in turn is conducive to the emergence of political organizations demanding compensatory public policy measures in the form of stronger social security. Again there is no evidence from the region that would support this hypothesis. Malaysia and Singapore have similarly uneven distribution of wealth, whereby the bottom twenty percent of households receive about five percent of national income, yet they vary greatly in terms of their expenditure on social security (Asian Development Bank, 1993). Malaysia’s relatively stronger social security seem to have been guided by ethnic concerns of favouring the Malays, who tend to be disproportionately poor, rather than meeting the needs of the lower classes per se. The absence of similar concerns in other countries in the region may partially explain the weaker social security in these countries.

While there is little evidence of class-based politics prompting the emergence of social security in Southeast Asia, the possibility cannot be dismissed in the future. The high economic growth in these countries is creating pockets of ostentatious wealth which many commentators claim is a fertile ground for escalation of class conflicts, especially when economic growth slows down. If this eventuates, states will come under greater social pressures to expand their social security programs.

**Public Choice**

The public choice theory, another societal explanation, explains public policy in terms of efforts at vote-maximization by politicians and benefit-maximization by voters (Verbon, 1988; Van Velthoven and Van Winden, 1985). The relevance of these in explaining developments in the ASEAN countries is limited, however. There have been few serious electoral challenges to governments in the region in recent times to warrant vote-maximizing efforts. In Thailand where opposition parties have been relatively more successful than in the neighbouring countries have seen their success repeatedly crushed by military junta. The close 1993 election in Philippines was conducted under strict macroeconomic policy framework imposed by the World Bank which allowed little room for politicians to promise increased social security expenditure.

Having said that, the public choice argument is not entirely without merit. Even the fear of loss of few seats in Singapore prompted the government to announce social welfare measures in the run-up to the 1991 election. The same is true for Thailand where democratization in recent years has led to expansion of social security. The ruling coalition in Malaysia may also not have been oblivious to the electoral advantages of its social
programs designed to address the needs of the Malays. The leadership transition after the
departure of President Suharto in the next election may create similar pressures in Indonesia.

Culture

There is a yet another societal approach which emphasizes cultural factors. Such
studies on East Asia suggest that Confucianism has played a significant role in shaping social
security systems in the region (Jones, 1990; Jones 1993). While this may shed some light on
the limited statutory social security available in the region, it is generally an unsatisfactory
explanation. Only the Singapore government describes its governing philosophy as guided by
Confucianism. A more general argument heard both within and outside the region is that
Asian societies, unlike their Western counterparts, subscribe to self-reliance and therefore
avoid hand-outs offered by social security programs. This is an entirely untenable argument
because its proponents also disparagingly, and unwittingly, describe Western societies as
liberal, the bed-rock of which is individualism. Indeed the establishment of welfare states
was opposed in Europe and North America on grounds that it undermined Western culture.
Moreover, it is not without irony that the supposedly more confucian societies such as South
Korea and Taiwan have, or in the process of establishing, extensive social security programs.

STATE-CENTRED EXPLANATIONS

The state-centred approaches explain public policies in terms of the institutions and
objectives of the state itself (Deyo, 1992; Skocpol, 1985; Weir and Skocpol, 1985). The state
in this perspective is treated as an autonomous actor with its own financial and bureaucratic
resources which it uses in pursuit of its objectives. The extent to which it is successful in
achieving its objectives depends largely on its internal organizational capacity and its
autonomy from societal pressures. In its simplest form, the statist approach is obviously
inadequate, because no state exists in complete autonomy from societal and international
forces. To be useful, the approach must also consider the international and societal
constraints that affect states’ actions.

There is a large literature on ASEAN, indeed on Eastern Asia in general, suggesting
that public policy-making in these countries is an entirely top-down affair. To understand
their public policies, it is argued, one must understand the predilections, preferences and
interests of the state elites. There is much truth in this argument. One cannot understand
social security in ASEAN without understanding the policy outlooks and interests of
governments led by Marcos in Philippines, the military in Thailand, Mahathir in Malaysia,
Lee Kwan Yew in Singapore, and Suhart in Indonesia. They have all been unflagging in
their opposition to social security, even when their rhetoric suggested otherwise, as in the
case of Lee Kwan Yew in the early 1960s. The unusual degree of autonomy they enjoy from
societal constraints has made it possible for them to put their beliefs into practice. The
imperatives of the international economy and export-oriented industrialization strategy further
reinforced their ideological predisposition.

The organization strength of the ASEAN states and their relative autonomy from
societal pressures, coupled with their leaders’ ideological opposition to social security, goes a
long way toward explaining the weak social security systems in the region. This will continue
to hamper the development of social security in these countries. However, the weaknesses of
the governments in the Philippines and Thailand may alter the situation in future, because insecure regimes often expand social security to bolster their rule. The same may well occur in Indonesia after Suharto.

CONCLUSION

The best form of social security is undoubtedly widespread economic prosperity. By this criteria, the ASEAN countries have performed remarkably well, making impressive inroads into reducing poverty in their respective countries. But even in the most prosperous societies, as ASEAN countries are not, there are people who need state support to meet various contingencies they encounter during their life-time. All modern societies make varying degrees of support available to sections of the society considered particularly vulnerable, such as the poor, children, and aged. The ASEAN countries provide for the entire range of main social security programs, except for unemployment benefits, found in the developed countries.

The proportion of public finance devoted to various items of expenditure vary significantly across ASEAN countries. As a general rule, however, the share spent on social security is rather small. There is no clear pattern in the overall shifts in patterns of public spending in the ASEAN countries. Over the years, government expenditure on income maintenance, health care, and public housing as percentage of total expenditure has increased significantly in Malaysia and Thailand, increased marginally in Indonesia, and reduced markedly in Philippines and Singapore. Given the rapid economic development of these countries and the corresponding increase in government revenues in all ASEAN countries except Philippines, the increase in share channelled to social security translates into a huge increase in absolute terms. The most interesting case here is Singapore which has reduced its social security expenditure despite a very high rate of economic development.

Even if the ASEAN countries maintain their past economic performance, as in all likelihood they will, there will be pressures on governments to make additional efforts in the area of social security. These pressures will flow not from any single source but from among a range of factors noted in the literature on welfare state. The most prominent of these will be ageing of the population and increasing democratization, and the possible weakening of the regimes’ grip on their societies. Pitted against these pressures will be factors that will constrain the expansion of social security. The need to maintain low taxes in order to attract foreign investment and the continuing weaknesses of trade unions promote conditions unfavourable to expansion of social security.

If the ASEAN governments do decide to expand social security, either at their own initiative or under societal pressure, they are likely to opt for fully-funded social insurance schemes which make it possible to meet social security needs without burdening the public exchequer. The recent changes in Thailand may well be a precursor of measures to come. If this does eventuate, Singapore and Malaysia, with their massive provident funds, will be in the best position to establish comprehensive social security systems. Philippines already has a broad social insurance schemes covering a large proportion of those in regular employment. Indonesia, with its social security programs skewed toward civil servants and army personnel, is likely to encounter the greatest problems in strengthening its social security system.
The main problem with relying on social insurance schemes the ASEAN states will encounter is the large informal sectors in all countries in the region except Singapore. Since social insurance schemes depend on pay-roll tax for funds, those outside formal employment are hard to protect through this mechanism. Funding the schemes from general tax revenues gets around the problem, but is not a practical alternative for the region. Efforts to increase taxes to fund social security will be opposed severely by foreign and domestic investors, sections of society the governments in the region cannot afford to antagonize.

Whatever happens, it is highly unlikely that the ASEAN countries will develop a uniquely Southeast Asian model of social security. One need to look no further than Japan to realize that cultural uniqueness does not translate into a unique social security system. However, it is true that the ASEAN governments’ social security expenditures will remain low for a long time to come. This will be the case for reasons only partially rooted in culture and more in the expected high rate of economic growth, which tends to reduce spending on social security. The widespread practice of looking after the aged within the family can also be expected to play a critical role in containing social security expenditures on the aged.
REFERENCES


Skocpol, Theda (1985) “Bringing the State Back In: Strategies of Analysis in Current Research”, in Peter B. Evans, Dietrich Rueschemeyer, Theda Skocpol (eds.), Bringing the State Back In, Cambridge: Cambridge University Press, pp. 3-43

