Overview of the Evolution of Social Security in Asian Countries

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I. Introduction

In many of newly industrializing and newly democratizing countries in Asia, social security programs have been remarkably expanded not only quantitatively but also qualitatively in the past two decades. The number, as well as the share, of those who are covered by various social security schemes has drastically increased in many, if not all, Asian countries. Just three decades ago, it was widely believed that economically struggling Asian countries would not afford to have unemployment insurance (UI) for many generations to come. But UI was introduced in South Korea in 1995, Taiwan in 1999, Thailand in 2004, and Vietnam in 2007. Serious discussions on the introduction of UI are now going on in the Philippines and Malaysia.

Because of the wide differences in their cultural and historical backgrounds, level of industrialization, and political configurations, it is not surprising at all for social security in Asian countries to have considerable dissimilarities with each other. Despite such dissimilarities, however, this paper points out that many of newly industrializing Asian countries share some similar basic characteristics in their social security arrangements.

Social security programs can be categorized by the targeted risks such as individual risks, industry/region-wide or nation-wide risks. In many of Asian countries, social security programs was designed mainly to mitigate individual risks in its early stages, and then they were modified and/or expanded to better cope with industry/region-wide as well as nation-wide risks in the later stages. The reasons behind this common trend will be elaborated in the third section of this paper.

Social security programs can also be categorized by funding schemes such as social insurance, provident funds or public assistance. In Asia, many social insurance schemes, especially in its early stages, cover only those who work in the formal sectors as a full-time employee, or in other words, they exclude those who work in the informal sectors, self-employed, and farmers, which still constitute a large portion of their labor force. In Malaysia and Singapore, where provident funds play a pivotal role in their social security arrangements, not only full-time workers but also contingent workers are covered. But, while the provident funds provide a sizable amount of money to highly-paid long-time workers when in need, they often fail to provide adequate protection to lowly-paid workers with intermittent jobs.
Most of irregular workers, self-employed, and farmers in Asia are not well protected neither by social insurance nor provident funds. Their plights are supposed to be alleviated, at least to some extent, by

government-sponsored public assistance. Their effectiveness and their forms vary considerably from country to country.

Social security arrangements, which cover regular employees and government officials in a structurally different and more privileged way than the rest of work force, are called “two-tier social security model” in this paper.

After briefly reviewing some of preceding studies in the next section, we will analyze why most of Asian countries have adopted the two-tier social security model, by focusing on its economic and political rationales in the third section of this paper. Though such economic and political rationales well explain the prevalence of the two-tier social security model in Asia, they alone cannot well explain a wide variation in two-tier social security arrangements in Asia. In order to explain such wide variation, we examine “the supply side constraints” to the evolution of social security in Asian countries in the fourth section. In the fifth section, we briefly overview the evolutionary paths of social security programs in selected Asian countries, namely, South Korea, Taiwan, Thailand, Indonesia, and the Philippines, to check the validity of our arguments presented in the third and fourth section. In the final section, we conclude that a two-tier social security model, if properly designed, can be a feasible second-best compromise for many of Asian countries, which face a number of often mutually conflicting demands from various sectors of the society, and also that, in order to properly design a two-tier social security model, we need to take into consideration the supply-side constraints, especially administrative capability and transparency of each country.

II. Review of Literature

In the 1990s, most of the studies on social security in Asia focused on Japan and four newly industrializing economies, namely, South Korea, Taiwan, Singapore, and Hong Kong. Some of them tried to explain their common characteristics by the influence of Confucianism and/or family-centered cultural values (for example, Jones 1990; Jones 1993). Such cultural explanation was criticized for its lack of explanatory power on inter-temporal changes and intra-regional differences even by some scholars who studied the same group of Asian countries in the 1990s (for example, White and Goodman 1998).

As this paper claims that we can observe certain similarities not only among the above mentioned five Confucian Asian economies but also among non-Confucian Asian countries, such as Thailand, Indonesia, and the Philippines, we cannot rely on cultural explanation much.

Most of preceding studies on social security in Asian countries regarded European countries as a frame of reference, explicitly or implicitly. So their research questions are often, “why so little and so late in Asia, while so much and so early in Europe." It is understandable for those who studied social security in Asian countries in the 1980s and 90s when social security arrangements in many of Asian countries were still in their very rudimentary stage to start their researches with such questions. Rapid expansion of social security in some of Asian countries in the 2000s, however, poses a different set of questions. In this paper, the frame of reference is not the social security arrangements in Europe. We focus on intra-regional and inter-temporal differences and changes within Asia. So our questions will be "why now / why not now, why in this country / why not in that country, why in this form / why not in that form."

In the 1990s, many of those who were not satisfied with cultural explanation on social security arrangements in Asian countries tried to answer the question, "why so little and so late in Asia" either by economic rationales (for example, Deyo 1992; Holliday 2000) or by political rationales (for example, Kwon 1997; Gordon and Goodman 1998). This paper will also focus on economic and political rationales, but analyze them in a very different way from preceding studies in the 1990s, because we deal with a different set of questions, as mentioned above.

Most of those studied social security arrangements in Asian countries with either an economy-centered or politics-centered approach in the 1990s argued that economic imperatives and/or political configuration were such that development of social security in Asian countries was retarded or skewed. This paper, on the other hand, argues that most of Asian countries face more or less similar global economic imperatives but with different economic and political endowments, which resulted in certain similarities as well as unevenness in social security arrangements in Asian countries.

III. Two Potentially Conflicting Rationales for Social Security in Asian Countries

(1) Economic Rationale

Dominant discourse on economic imperatives on social security in Asian countries in the 1980s and 90s was that export-dependent Asian countries, which rely heavily on cheap labor, would try very hard to keep the expenditure for social security program as low as possible for many years to come. With the benefit of hindsight of two decades or so, in which we saw rapid development of social security programs in some of forerunning Asian countries, such South Korea, Taiwan, and Thailand, we can now safely says that such pessimistic views were too simplistic and static.

Experiences of those forerunning Asian countries show that we cannot keep our economy growing if we rely solely on cheap labor. There are so many developing countries with cheap labor in the world. Unlike in the 1970s when not many of the third world countries tried seriously to export their manufactured products to developed countries, now many of them, if not all, are trying hard to do so. Competitors increased, but the

markets in developed countries shrank. In order to keep economy growing, it is necessary to upgrade industrial structure. Upgrading of industrial structure requires better skilled and well-disciplined workers.
Longer years of education are often required to become skilled and well-disciplined workers. Children and their parents face two choices; to become unskilled workers right after they finish their primary education, or to continue their education up to a senior high school level or higher to become killed workers. A senior high school diploma, however, does not guarantee that its recipients can get a job as a skilled worker. Their possibility to become a higher-paid skilled worker depends not only on their own efforts and talent, but also on the behaviors and decisions of other workers and prospective workers. If the number of those who decide to continue their education up to a senior high school level is too small, the chances of senior high-school graduates to become a higher-paid skilled worker becomes smaller, because investors (in many cases foreigners in many of Asian countries) are less likely to set up factories that employ a large number of skilled workers in a country (or region) where only a small portion of the populace has a senior high-school diploma.

One way to avoid from falling into a vicious circle, in which the paucity of senior high-school graduates discourages investors from creating job opportunities for skilled workers and dim prospect of becoming a higher-paid skilled workers discourages children and their parents from continuing their education up to a senior high-school level or higher, is to increase the expected amount of future income of senior high-school graduates in comparison with the less-educated. Other things being equal, if better social protection is provided only to regular employees in the formal sector where many workers with a senior high-school diploma or higher are employed than to contingent workers in the informal sector where many workers have lower educational background, the expected amount of future income of senior high-school graduates vis-à-vis that of the less-educated will increase.

It is debatable whether it is morally and political correct or not to provide better social protection to higher-paid workers in the formal sectors than to those who work in the informal sectors with lower income (we will discuss this issue later in this paper). It is, in many cases if not always, economically rational to do so from a developmentalist viewpoint. Therefore, it is not surprising to see social security programs in most of Asian countries provide better protection to workers in the formal sectors than their counterparts in the informal sectors.

In the early stage of industrialization, social security programs are usually aimed to cover individual risks, such as industrial injury, work-related deceases and death, childbirth, and retirement. As the upgrading of industrial structure proceeds, social security programs often expand to cover not only individual risks but also industry-wide risks.

Textile industry, which played a leading role in many of Asian countries in its early stage of industrialization, is now very quickly declining not only in the first-tier NIEs such as South Korea and Taiwan but also in the second-tier NIEs such as Malaysia and Thailand as well, because of ever intensifying competition from less developed countries. Many of skilled textile workers in those first-tier and second-tier NIEs now find "the market value" of their industry-specific skill declined sharply.

In the case of textile industry, it took a few decades for those first-tier and second-tier NIEs to lose their international competitiveness. But product life cycles tend to become shorter and shorter because of intensified global competition and rapid technological changes. In the mid-1990s, Malaysia and Thailand started producing and exporting a large number of floppy disks and floppy disk drives, but within a decade or so, all the production lines of floppy disks and drives in the two countries were shut down.

Middle-income countries, to which many of Asian countries belong, now face a difficult dilemma in promoting skill formation of their work force. In order to further upgrade their industrial structure, they need to have a larger number of workers with industry-specific skills. From a viewpoint of workers, however, it is not without risk to accumulate industry-specific skills, especially in the increasingly competitive globalizing age, because it is difficult to foresee how long their industry-specific skills can maintain their market value. One way to reduce a risk to accumulate industry-specific skills, at least to some extent, is to expand and reform social security programs so that it can cope with industry-wide risks better.

In the process of upgrading industrial structure, some of previously flourishing industries start declining. Rising unemployment among workers who used to be employed in those declining industries often come to be perceived as an industry-wide risk (sometimes as a region-wide risk as well, if such industries are concentrated in a certain region of the country) rather than an individual risk. In many of Asian countries, a risk of involuntary lay-off was (often insufficiently) covered by the compulsory severance payment system, which requires employers to provide a certain amount of money to those whom they lay-off. Bankrupted employers in the declining industries, however, often fail to provide a mandatory severance payment to laid-off workers by claiming that no money is left in their companies' coffer because of huge debts accumulated over the years. In general, unemployment insurance can cope with such an industry-wide risk of large-scale layoffs much better than mandatory severance payment systems. As mentioned in the first section, unemployment insurance was introduced in South Korea in 1995, Taiwan in 1999, Thailand in 2004, and Vietnam in 2007, and serious discussions on the introduction of UI are now going on in the Philippines and Malaysia.

Many of Asian countries are heavily dependent not only on the exports of manufactured products but also on investment from abroad as well. As industrialization progresses, wider variety of industries come to gain international competitiveness, start exporting their products and receive a huge amount of foreign investment. These changes tend to make their economy vulnerable to external shocks, and increase nation-wide risks. Such nation-wide risks were severely felt by many Asian countries, when the region was hit hard by international financial crisis in 1997 and by abrupt downturn of the global economy triggered by the so-called Lehman shock in 2008.

Industry-wide risks are often felt more seriously by skilled workers than by unskilled workers. Salaries of unskilled workers are unlikely to change drastically even if they move from one industry to another. But as for skilled workers, especially for those who have industry- or firm-specific skills, their salaries are likely to decrease considerably if they work as an unskilled worker in the other industries. But nation-wide risks pose a serious threat not only to skilled workers but also to unskilled workers. When Asian countries were hit by crises in 1997 and 2008, many of unskilled workers and farmers were not well protected by social security programs, while the plights of skilled workers in the formal sector were at least partially alleviated by those programs.

Through painful experiences during the nation-wide economic crises in 1997 and 2008, farmers, self-employed, and workers in the informal sectors in some of Asian countries came to resent the unequal treatment by the government.

(2) Political Rationale

Many of Asian countries experienced not only rapid industrialization but also democratization in the past few decades. Many of the preceding studies, which tried to explain some of the characteristics of social security arrangements in Asian countries in the 1980s and 90s argued that the combination of authoritarian pro-growth and pro-business governments and weak societal forces hampered the development of social security arrangement in Asian countries. The political situations in many of Asian countries, however, have changed drastically since then.

Democratization started in South Korea and Taiwan in the latter half of the 1980s. But it took them about a decade to fully experience the impact of democratization. South Korea held the first democratic presidential election after a long authoritarian rule by Park Chung-hee and Chun Doo-hwan in 1987. But it was Roh Tae-woo, a former military general with a conservative political stance, who won the election in 1987. Political space opened up wider after Kim Young-sam won the presidential election in December 1992. Various societal groups, including labor organizations, grew very rapidly under the presidency of Kim Dae-jung (1988-2003) and Roh Moo-hyun (2003-2008). Both Kim Dae-jung and Roh Moo-hyun had close relations with some of the labor leaders when they were opposition politicians. As we will see in the fifth section of this paper, social security arrangements in South Korea went through drastic change in the 1990s and early 2000s.

Democratization in Taiwan progressed gradually after Lee Teng-hui succeeded Chiang Ching-kuo, who passed away in 1988, as a leader of *Kuomintang*, or Chinese Nationalist Party, that ruled Taiwan since the end of the

World War II. The first democratic election of members of the parliament was held in 1992, and the first presidential election was held in 1996. Incumbent Lee Teng-hui won the election, and the rule by *Kuomintang* continued until Chen Shui-bian of Democratic Progressive Party won the second presidential election in 2000. Social security arrangements in Taiwan also went through fundamental changes since mid-1990s.

Many of other Asian countries also experienced democratization, though in a varying degree, in the past few decades. Marcos, a long-time dictator, was expelled in 1986, and the Philippines experienced four presidential elections since then. Another long-time dictator, Suharto, was also disgracefully forced to resign in 1998.

Elections now play a pivotal role in determining who will govern in many of Asian countries. In the elections, no matter whether he or she works in the formal sector or in the informal sector, everyone can cast one vote. In many of Asian countries, those who work as a regular employee in the formal sectors are outnumbered by farmers and workers in the informal sectors. It is getting increasingly difficult for political leaders in Asian countries to win elections without showing willingness to extend some form of social protection to farmers and workers in the informal sectors, as democratization progresses.

As we will see in some detail later, South Korea, Taiwan, Thailand, Indonesia, and the Philippines implemented new public health insurance scheme to cover those who are not regular employees in the formal sectors in the 1990s and 2000s. In the case of South Korea and Taiwan, those health insurance schemes designed to cover the less privileged in the informal sectors were later merged with health insurance schemes for regular employees in the formal sectors.

The implementation of new public health insurance schemes in those countries reduced the inequality between workers in the formal sectors and workers in the informal sectors as well as farmers in their protection from health risks. But, except in South Korea and Taiwan, they were covered by different schemes and there still remains considerable inequality. We will examine the reasons behind such divisions in social security arrangements between the two sectors in the next section.

IV. Supply-Side Constraints

Not unlike many other preceding studies, our analysis of the changes in social security arrangements in Asian countries in the previous section focused mainly on the demand side. We explained the changes by showing why such changes were necessary and/or desirable. In a harsh real world, however, we sometimes fail to fulfill necessary requirements and often fail to achieve desirable goals. Therefore, we cannot get the whole picture of changes by just pointing out what was necessary and/or desirable. We also need to pay attention to the supply side and examine what was possible and feasible and what was not.

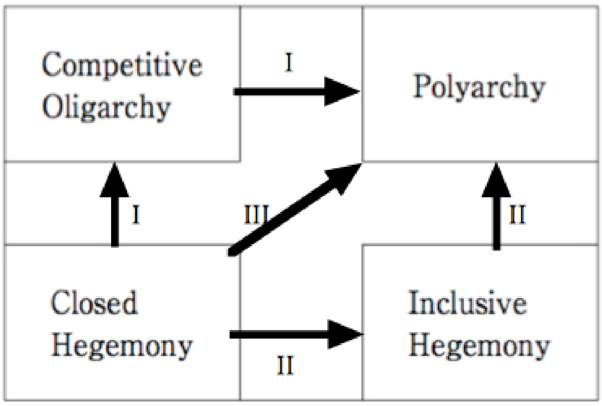
Policy-makers as well as scholars often cite budget constraints as the most serious obstacle to achieve desirable changes in social security programs. They, for sure, pose a very serious obstacle. Budget constraints, however, are not the only obstacle we face. In this paper, we would like to focus on often-ignored but equally, if not more, serious obstacles, namely, lack of administrative capabilities and corruption.

Now, at least as a principle or as a stated goal, the governments in Thailand, Indonesia, and the Philippines vow to provide “free health insurance” to poor families that are not covered by other types of social security schemes. In Thailand, a “free health insurance” scheme now covers almost all the people in the informal sector. But in Indonesia and the Philippines, “free health insurance” has not yet covered all the needy families. The governments in the two countries cite budget constraints as its main reason. But many officers in the fields often cite inadequate and inaccurate data on those who work in the informal sectors as another serious obstacle (Roks 2009; *Jakarta Globe*: October 13, 2009; Lavado 2010; my personal interviews at the Philippines’ Department of Labor and Employment and Philippine Institute for Development Studies in January 2011). Poor maintenance of household records and inadequate personnel at local levels prevent them from figuring out who are eligible for “free health insurance” accurately.

It should also be noted that social security programs in Thailand, Indonesia, and the Philippines have been haunted by corruption scandals (see for example, *ABS-CBN News*: July 10, 2008; *Asian Investor*: July 12, 2006; *Indonesian Observer*: June 30, 2000; *Jakarta Globe*: February 12, 2009; *Jakarta Post*: July 4, 2005; *Jakarta Post*: April 7, 2007; *Krungthep Thurakit:* June 16, 2009; *Krungthep Thurakit*: June 29, 2009; *Nation*: February 14, 2011).

In his influential book, *Polyarchy: Participation and Opposition* (Dahl 1972), Robert Dahl wrote that there were three pathways to full democracy, which he called “polyarchy.” He drew those three pathways as shown in Figure 1 below, where the vertical axis represents the degree of “public contestation,” or in other words, quality of political participation, while the horizontal axis represents the degree of “inclusiveness” or in other words, extent of suffrage. Many of European countries reached full democracy through Path I, that is to say, by raising the quality of political participation among relatively small number of people first, and then gradually expanded the suffrage. Most of developing countries, on the other hand, have been trying to make their way to full democracy through Path II, that is to say, by starting with a political configuration that gives all the people a right to vote regardless of their income or class background, but not much liberty to express their political opinion in public and not much power to influence the decision-making processes of important policies, and then gradually raising the levels of political liberty and quality of participation in the decision-making processes of important policies (Dahl 1972: 1-10).

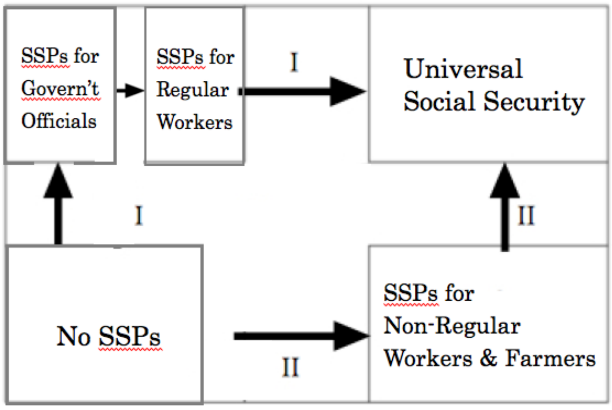
Figure 1: Three Pathways to Full Democracy (Dahl 1972: 7)



Dahl argued that, in the past, going through Path I had had a better chance to reach full democracy than going through Path II or Path III. But he also pointed out that it would be no longer feasible for new nations that attained independence in the latter half of the 20th century to take Path I, and that they had no choice but to take Path II no matter how hilly the road is.

In analogy to Dahl's analysis of the pathways to full democracy, we can draw two pathways to universal social security, which provides "adequate safety nets for all" as shown in Figure 2 below, where the vertical axis represents the quality of protection, the horizontal axis represents the coverage, and SSP stands for "social security programs."

Figure 2: Pathways to Universal Social Security



Most of Asian countries set up social security programs that protect government officials, military personnel first, and expanded them to cover regular workers in large private enterprises, and then workers in a small and medium enterprises in the formal sectors. After almost all the workers in the formal sectors are covered by some form of social security programs, separate social security programs, which require no or nominal premiums but provide poorer quality of social protection, are often set up to cover farmers and workers in the informal sectors.

Unlike the pathways to full democracy described by Dahl, the two pathways drawn in Figure 2 seem to be able to coexist in many Asian countries. There are some important differences between social security and political rights. In the process of democratization, political rights expand and spread to wider public. Those who receive new political rights are usually not required to pay any fee to get them. But in the case of social security, regular workers in the formal sectors are usually required to pay some premiums to be eligible for social security benefits. The amount of premiums often varies in accordance with their level of income. Social security programs for regular workers are often subsidized by the government. But it seldom comes free.

Expansion of social security is usually welcomed by the public, even if they are required to pay some premiums, but not always and not by everyone. That’s why the participation in social security programs is often made compulsory for those who are eligible. Unlike political rights, participation in social security programs often comes not only as a right but also as a duty. In Asian countries, some social security programs start with regular employees in large enterprises and then expand to cover those who work in smaller enterprises. In many countries, it is not uncommon for some people who become newly eligible to try to find a loophole to exempt themselves from some social security programs to avoid paying premiums.

Whether and how much one feels willing to contribute premiums depends on the “discount rate” for future loss and benefit as well. It is generally believed that subjective discount rates for future loss and benefit are negatively correlated with the level of income. A small difference in the discount rate often makes a big difference in the present value of future benefit that might come 20 or 30 years later (Farber 1993; Heal 2005). It means that as social security programs expand to cover people with lower income, it becomes more likely to face an unwilling response, unless the rate of premiums is lowered.

As for full-time employees in the formal sectors, it is relatively easy for the concerned government agency to figure out their income more or less accurately. So it is technically feasible to charge different amount of premiums for social security program in accordance of their level of income to reduce the unwillingness of workers with lower income. But it is very difficult to accurately estimate the level of income of farmers and those who work in the informal sectors. So in many Asian countries, social security programs designed mainly for farmers and workers in the informal sectors usually charge a flat rate of premium or do not charge any premiums.

The average income level of farmers and workers in the informal sectors is considerably lower than that of regular workers in the formal sectors in many Asian countries. There exists, however, a considerable variation in the income level even among farmers and those who work in the informal sectors. Social security programs with a flat rate of premium tend to face stronger unwillingness to participate among poorer segments of farmers and those who work in the informal sectors. But if social security programs, which do not charge any premiums, provide generous benefits to all those who works in the informal sectors regardless of their level of income, it might make regular workers in the formal sectors dissatisfied.

Faced with such a dilemma, many of Asian countries with insufficient administrative capability to gather accurate information on the income of those who work in the informal sectors, have opted to set up social security programs that require no or only a nominal amount of premium but offer lower quality of protection to workers in the informal sectors.

V. Brief Overviews of Social Security Arrangements in Selected Asian Countries

(1) South Korea

A public health insurance scheme was set up in 1963, but the participation was not compulsory, and only a very small fraction of workers were covered by this voluntary scheme. In 1977, it became compulsory for those who work in the enterprises with 500 or more employees to join the public health insurance scheme. A government-sponsored health insurance scheme for government employees was also set up in 1977. The compulsory public health insurance scheme for private employees expanded its coverage gradually. It came to cover enterprises with 300 or more employees in 1979, those with 100 or more employees in 1981, those with 16 or more employees in 1983, and those with 5 or more employees in 1988 (Li 2009: 56; Kim 2009: 13).

As for the self-employed and workers in the informal sectors, a health care program for indigent households was set up in 1977, but it covered only a small portion of those who work in the informal sectors. It was not until the mid-1980s when serious efforts were made to provide a public health insurance program for all those who work in the informal sectors. Democratization movement gained a big momentum in the mid-1980s in South Korea, and the provision of a public health insurance program for self-employed and workers in the informal sectors became one of the most hotly debated issues in many of the electoral campaigns. A health insurance program for the self-employed and those who work in the informal sectors in the rural areas, including farmers and fishermen, was set up in 1988, and another health insurance program for the self-employed and irregular workers was set up in 1989. With the establishment of these programs for the informal sectors at the end of the 1980s, universal coverage was achieved in the field of health insurance. In the latter half of the 1990s, various societal groups came to strongly demand for the integration of public health insurance programs, and after heated political debates, the health insurance program for government employees, that for regular private employees, and those for the self-employed and irregular workers were merged into one scheme in the early 2000s (Li 2009: 56-59).

As for public pensions, government officials and military personnel were covered by the government sponsored pension scheme since the early half of the 1960s. A separate compulsory public pension scheme was set up for private employees who work in enterprises with 10 or more employees in 1988. It later expanded to cover enterprises with 5 or more employees in 1992, and farmers and fishermen in 1995, and finally all the self-employed and irregular workers in the informal sectors in 1999 (Kim 2001: 87).

(2) Taiwan

Public insurance programs for government employees and military personnel were set up in the 1950s. Regular workers in private enterprises with 20 or more employees have also been covered by a public social insurance program. The social insurance scheme for private employees was expanded to cover enterprises with 10 or more employees in 1970. A separate public health insurance scheme for farmers was introduced in 1989, and another scheme for low-income households that are not covered by other health insurance schemes was set up in 1990. These public health insurance schemes designed to cover different categories of people were merged into one scheme in 1995 (Kojima 2003: 141-143). By merging several public pension schemes into one scheme in 2002, Taiwan now has a universal public pension scheme as well as universal public health insurance.

(3) Thailand

Government employees and military personnel have been covered by the government-sponsored health insurance scheme since 1978. A social insurance scheme for private employees started in 1991 with those who work in enterprises with 20 or more employees, and came to cover enterprises with 10 or more employees in 1994, and all enterprises with one or more employees in 2000. Unemployment insurance was also introduced in 2004 as a part of the social insurance scheme.

As for farmers and irregular workers in the informal sectors, a free medical welfare scheme for indigent households was implemented in 1981, and the “voluntary health card” program, which entitles card-holders to receive free medical service at government medical facilities for one year at a flat annual fee of 500 baht, was introduced as a pilot project in 1984. These two programs were replaced by the Universal Coverage Scheme, or “a 30 Baht Scheme” in 2001. This 30 baht scheme was one of the most popular election campaign slogans for Thaksin Shinawatra and his party. Thaksin’s party won the largest number of seats in the parliamentary elections in 2001 and 2005. It is widely believed that Thaksin’s popularity was greatly enhanced by this 30 baht scheme. Almost all those who were not covered by social insurance were entitled to receive a 30 baht scheme card, regardless of their income level.

Thaksin was expelled by a military coup in 2006. The military junta that seized power from Thaksin abolished the Baht 30 copayment right after the coup with an obvious political motive to weaken Thaksin’s popularity among the rural and urban poor, and the system is now totally free of charge.

As for public pension, the government officials and military personnel were provided with some form of pension even before the World War II. Their pension schemes were firmly institutionalized in 1951. It was not until 1998 when private employees are entitled for public pension as a part of the social insurance scheme. It started with those who work in enterprises with 10 or more employees, and expanded to all the regular workers in the formal sector two years later.

Most of farmers, the self-employed, and irregular workers are not covered by any public pension program, yet. But the present Abhisit administration started providing 500 baht as a monthly allowance to the elderly, who are not covered by the social insurance scheme in 2009.

(4) Indonesia

Government employees and military personnel have been covered by the government-sponsored pension and health insurance schemes since the 1960s. As for private employees, those who work in enterprises with 10 or more employees or having a payroll of at least one million rupiah are provided with public health insurance and public pension by the JAMSOSTEK scheme (the Employees' Social Security) since 1992. It is, however, widely reported that many of those who work in enterprises with 10 or more employees are still not well covered by this JAMSOSTEK scheme.

As for the informal sectors, Indonesia implemented a pilot project called ASKESKIN, and started providing free medical services to the poor households in 2004. Four years later, Askeskin evolved into Jaminan Kesehatan Masyarakat (JAMKESMAS), which now covers 76.4 million poor Indonesians, at least on paper. JAMKESMAS, however, is still in its experimental stage and a number of irregularities and malfunctions are reported, and its further expansion has been hampered by insufficient budget (see for example, *Jakarta Globe*: February 12, 2009; *Jakarta Globe*: October 13, 2009; *Jakarta Post*: February 2, 2010).

(5) The Philippines

Government employees have been covered by the Government Service Insurance System (GSIS), which provides a pension as well as the following social security benefits: compulsory life insurance, optional life insurance, retirement benefits, and disability benefits for work-related accidents and death benefits, since as early as 1936.

In 1954, the Social Security System (SSS) was set up to provide social security programs to private employees. When it started in 1954, SSS covered only those who are employed in enterprises with 100 or more employees. SSS gradually expanded its coverage; enterprises with 50 or more employees in 1957, those with 6 or more employees in 1958, and those with one or more employees in 1960. So far as regular employees in the formal sectors are concerned, SSS completed its coverage expansion, at least on paper, much earlier than its counterparts in other Asian countries. But it took several decades to expand its coverage in the informal sectors. SSS came to compulsorily cover self-employed professionals in 1980, the self-employed farmers and fishermen in 1992, domestic helpers in 1993, other informal sector workers in 1995, and finally irregular agricultural workers and family workers in 1997.

SSS provides old-age pensions, disability benefits, death benefits, sickness benefits, and maternity benefits. Its sickness benefits are provided in the form of daily cash allowance for the number of days in which a member is unable to work due to illness or injury. The daily sickness allowance is equal to 90% of the member's average daily salary, and payable for a maximum of 120 days in one calendar year. Therefore, sickness benefits of SSS often failed to fully cover the insurers' medical expenses.

In order to offer better protection for sickness and injury, a new public health insurance scheme called PhilHealth was set up in 1995. PhiHealth went through structural reform in 2000 and 2005, and now designed to provide full protection from health risks to all the people in the Philippines regardless of their income. Most of regular workers in the formal sectors are required to pay 2.5 – 3.0% of their salaries as a premium. Those who work in the informal sectors are required to pay a flat rate of 1,200 peso annually. Households under the poverty line are exempted from paying premium.

According to their regulation, almost all the people in the Philippines are eligible for PhilHealth. The Philippine government announced that its coverage reached 86% as of February 2010. But many public health specialists cast doubt on the reliability of such estimation. It is widely believed among public health specialists in the Philippines that the actual coverage is around 50% (personal interviews in Manila with public health specialists who prefer to remain anonymous in January 2011).

VI. Conclusion: A Two-Tier Model as a Second-Best Compromise

Peter Katzenstein (1986) argued that small states in Europe, such as Netherlands, Belgium, Austria, Sweden, Norway, Denmark, and Switzerland, had managed to maintain economic prosperity by pursuing a different set of policies from big states, such as the United States, Britain, France, and Japan. He wrote:

> For the small European states, economic change is a fact of life. ... These states, because of their small size, are very dependent on world markets, and protectionism is therefore not a viable option for them. ... Instead, elites in the small European states, while letting international markets force economic adjustments, choose a variety of economic and social policies that prevent the costs of change from causing political eruptions. They live with change by compensating for it. ... Their strategy differs profoundly from the liberal and statist principles that inform the political choices and structures of the large industrial states. (Katzenstein 1986: 24)

Many Asian countries, with China and India as notable exceptions, are facing a similar situation to the small states in Europe studied by Katzenstein. Though their population sizes might be a little larger, their sizes of their GDP is even smaller than those of “small” states in Europe. Like their counterparts in Europe, many of Asian countries are very dependent on world markets, and they have been facing the volatility of the global market. Many of Asian countries learned a bitter lesson on how politically disastrous and socially painful the adverse effect of the increasingly precarious global economy can be, when the region was ravaged by the Asian financial crisis in 1997.

If neither protectionism nor a retreat from the global economy is a viable option, Asian countries have only two options: 1) to develop their social security systems and prevent the costs of economic fluctuation and structural change from causing political eruptions as small states in Europe did, or 2) to strengthen the power of the government vis-à-vis various societal groups so that the government can force those who suffer from the adverse impact of the precarious global economy to withstand the pain without any pain-killers, as some authoritarian states did in the past. Under the present circumstances, the first option is less risky and less painful than the second one for many of Asian countries.

It is, however, not feasible for many of Asian countries to develop a full-fledged universal social security system that provides adequate safety nets for all in a short period of time. For many of Asian countries, which need to purse potentially conflicting economic and political aims at the same time, such as promoting the accumulation of industry- as well as firm-specific skills among their workforce, preventing political and social unrest, providing some basic social protection to the underprivileged, and avoiding the unlimited increase of government expenditure on social insurance, the two-tier social security model, if properly designed and implemented, would work well in many of Asian countries as a Second-Best Compromise until they get ready to move on towards a full-fledged universal social security systems.

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