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after the Financial Crisis:
Reflections on the Case of Hong Kong**

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THE SUSTAINABILITY OF THE ASIAN WELFARE SYSTEM AFTER THE FINANCIAL CRISIS: REFLECTIONS ON THE CASE OF HONG KONG

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Introduction

Since the mid-1970s, the welfare regimes in the West have undergone a controversial and protracted process of restructuring. During the same period of time, Asian societies have experienced unprecedented economic growth, and have invested in the development of their own welfare regimes, taking into consideration the defects in the Western welfare regimes and the particular strengths of the 'Asian values' and social structure. The mixture of public (formal) and private (informal) provision of welfare has resulted in a system that offers support to individual even though public funding is limited. Recognition of social entitlement gradually developed in these welfare regimes through collective and universal provision of selected services. Welfare development, however unstable, received growing attention in Asia.

The financial crisis that began in 1997 signified a drastic change in the policy context. The economic future is bleak. In Hong Kong, unemployment is increasingly widespread and prolonged, and has a significant impact on individual's (and household's) capacity of self-protection. Economic growth is no longer taken for granted in national and individual planning. Governments must face the risk of shrinking public resources in response to increasing social demands. The ability of social capital to provide mutual help is questionable. Private welfare is certainly not targeted to the lower class. The sustainability of the welfare system is in doubt. Similar social impacts can also be observed in other Asian countries. This paper will focus on the situation in Hong Kong, while including data from other Asian countries and territories, to discuss the risk of our welfare system. I admit that a discussion at such a broad level may risk over-generalisation and hence a simplification of the specific situation in each country.

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The Asian Welfare State: its Characteristics and Systems

The study of Asian welfare systems in a comparative context has a relatively short history. There is a general assumption that welfare systems in Asia have lagged behind the systems developed in the West. In the Human Development Index compiled by United Nation Development Programme, only five countries and territories in Asia ranked as achieving a high level of human development: Japan, Singapore, Hong Kong, South Korea, and Brunei Darussalam. However, according to the same index, the progress of the Asian countries has been stable and observable in the past decades.

Table 1: Human Development Index

| Regions | Human Development Index 1998 |
|-----------------------------|-------------------------------------|
| East Asia | 0.716 |
| East Asia (excluding China) | 0.849 |
| South Asia | 0.560 |
| South East Asia and Pacific | 0.691 |
| OECD | 0.893 |
| High Human Development | 0.908 |
| Medium Human Development | 0.673 |
| Low Human Development | 0.421 |
| World | 0.712 |

Source: Human Development Report 2000, p.160.

During the past decades, one of the developments was the establishment of various social protection and welfare systems in these countries and territories. A comparative study of the welfare systems in this region was undertaken by outside scholars. They identified some distinctive features of the Asian system and attempted to distinguish it from Western welfare models. Although some time-honoured terms were retained, such as 'institutional' and 'residual', new terms emerged in the course of the study. Jones employs the terms 'Oikonomic Welfare State' (1990) and 'Confucian Welfare State' (1993) to describe the specific systems in Asia. The new categorization focused on the value basis of the social arrangement in welfare states, which is characterized as 'conservative corporatism without worker participation,' 'solidarity without equality; laissez-faire without libertarianism' and a 'household economy' (1993: 214). The term, 'East Asian welfare model' was used by Kwon (1997) to differentiate the systems in Japan and South Korea. In his analysis, he shows this model to be characterised by low public expenditure, a strong regulatory mechanism, and limited income redistribution.

Table 2: Human Development Index, Selected Countries, 1975 – 1998

| | Countries/ Territories | 1975 | 1980 | 1985 | 1990 | 1998 |
|-----------------------|-----------------------------------|-------------|-------------|-------------|-------------|-----------------|
| East Asia | Japan | 0.849 | 0.874 | 0.888 | 0.904 | 0.924 |
| | Taiwan | -- | -- | -- | -- | 0.874 (1997) |
| | Hong Kong | 0.753 | 0.792 | 0.819 | 0.855 | 0.872 |
| | South Korea | 0.684 | 0.722 | 0.765 | 0.807 | 0.854 |
| | China | 0.518 | 0.548 | 0.584 | 0.619 | 0.706 |
| Southeast Asia | Singapore | 0.725 | 0.756 | 0.785 | 0.823 | 0.881 |
| | Brunei | -- | 0.806 | 0.811 | 0.825 | 0.848 |
| | Malaysia | 0.620 | 0.663 | 0.696 | 0.725 | 0.772 |
| | Thailand | 0.600 | 0.643 | 0.673 | 0.708 | 0.745 |
| | Philippines | 0.648 | 0.682 | 0.685 | 0.713 | 0.744 |
| | Vietnam | -- | -- | 0.580 | 0.602 | 0.671 |
| | Indonesia | 0.465 | 0.526 | 0.578 | 0.619 | 0.670 |
| | Myanmar | -- | -- | -- | -- | 0.585 |
| | Cambodia | -- | -- | -- | -- | 0.512 |
| Laos | -- | -- | -- | 0.415 | 0.484 | |

Note: Taiwan compiles its own figures.

Sources: Human Development Report, 2000, pp.178-181;
<http://140.129.146.192/dgbas03/bs2/89chy/Hdi.doc>

Applying the concept of welfare capitalism to Asian welfare models, Holliday (2000) derives the 'productivist welfare capitalism' in which social policy is subordinated to economic policy. He suggests that there is no uniform model of Asian welfare system, it can, however, be broadly divided into three sub-types: 'facilitative' in which the state only plays a facilitative and regulatory role (e.g., Hong Kong); 'developmental-universalist' which emphasizes the principle of universalism in provision (e.g., Japan, South Korea, and Taiwan); and 'productivist-particularist' in which the state directs individual welfare provision, with minimal rights and forced individual provisions (e.g., Singapore). White and Goodman (1998) and Ramesh (1995) also argue that there is no single and unified model in this region. Similar observation on the differences in state intervention, scale, and the principles of provision are also supplied by Flynn (1999: Ch. 6).

At the same time, scholars have argued that, despite marked differences, East Asian welfare systems do have common characteristics. Wilding (1997) identifies several similarities: low public expenditure on welfare and the adoption of a facilitative, regulatory, and enabling role by the state; productivist social policy focused on economic growth; a general dislike of the notion of the

'welfare state', strong residualist elements, and limited commitment to social citizenship; and the central role of the family.

Gough also observes that welfare in this region is increasingly in the hands of growing private markets and community-based organizations (2000a: 4). However, with decreasing government investment and small market shares, the region can only achieve high standards of health, education, and poverty reduction if there is substantial family provision and private market consumption (2000a: 11). State provision focuses on the items of social investments, such as education and health (2000b: 16). Social citizenship is still a new concept in some of the countries in the region.

If we wish to identify an Asian welfare model, we must not ignore the variation in ideologies, provisions, systems, and outcomes across the region. However, generally speaking, the findings of Wilding and Gough do illuminate the common features of the various systems in Asia. These are the products of the specific socio-economic-political factors in each countries and their historical legacy (Gough 2000c).

The welfare regime comprises the welfare mix and welfare outcomes. 'Welfare mix' refers to the patterns of state provisions and the wider provisions of welfare in society by market, family/household, and community. In Gough's analysis, family and market provisions are the dominant mode of delivery and consumption of education, health, pension and safety nets in East Asia, while in the European Union, the state occupies the dominant role in every service (2000a: Figure 2). The result of the Asian situation is a low level of de-commodification and defamiliarisation, and high degree of social stratification. It is generally believed that such an arrangement supports the welfare system and protect people welfare. Individuals must work to receive monetary reward, and must redistribute these resources to their family members. The family can deploy these resources to purchase services in the private market. The community will provide support to those in need on a moral basis. For those who have to rely on public services, the state will strategically intervene. Employment and income derived from employment are of utmost importance in this welfare arrangement.

The Asian Financial Crisis and its Social Impacts: The Case of Hong Kong

Before the financial crisis, unemployment was virtually non-existent or diminishing in Asia, and especially Hong Kong. Hong Kong and other Asia countries, with the possible exception of Indonesia and the Philippines, had achieved full or almost full employment (Table 3). Individuals generated income to support themselves and their families, and were able to contribute to personal saving plans, public social security schemes, and private insurance policies. The crisis in 1997 has had a significant impact on this arrangement. All the major economies in the region recorded a sharp decrease in their GDP growth rate from 1997 to 1998. As a result, unemployment rates increased dramatically in most of the countries and territories.

Table 3: Economic Growth and Unemployment in Asia, 1995-1999

| Region/Country/ Territory | | 1995 | | 1996 | | 1997 | | 1998 | | 1999 | |
|------------------------------|-------------|------|-----|------|------|-------|------|-------|------|-------|------|
| | | GDP | UE* | GDP | UE* | GDP | UE* | GDP | UE* | GDP | UE* |
| East Asia | Japan | 1.47 | 3.2 | 5.05 | 3.4 | 1.43 | 3.4 | -2.82 | 4.1 | 1.39 | 4.7 |
| | Taiwan | 6.42 | 1.8 | 6.1 | 2.6 | 6.68 | 2.7 | 4.57 | 2.7 | 5.48 | 2.92 |
| | Hong Kong | 3.89 | 3.2 | 4.49 | 2.8 | 4.97 | 2.2 | -5.14 | 4.7 | 2.91 | 6.3 |
| | South Korea | 8.92 | 2.0 | 6.75 | 2.0 | 5.01 | 2.6 | -6.69 | 6.8 | 10.66 | 6.3 |
| Southeast Asia | Singapore | 8.07 | 2.0 | 7.56 | 2.0 | 8.23 | 1.8 | 0.4 | 3.2 | 5.35 | 3.5 |
| | Malaysia | 9.46 | 2.8 | 8.58 | 2.5 | 7.5 | 2.5 | -7.5 | 3.2 | -1.7 | 3.4 |
| | Thailand | 8.9 | 1.1 | 5.93 | 1.1 | -1.68 | 0.9 | - | 3.4 | 4.16 | 3.0 |
| | Philippines | 4.68 | 8.4 | 5.85 | 7.4 | 5.17 | 7.9 | -0.48 | 9.6 | 2.9 | 9.4 |
| | Indonesia | 8.22 | 7.2 | 7.84 | 4.86 | 4.69 | 4.68 | - | 5.46 | 0.23 | 6.36 |

Note: *UE: Unemployment rate

Source: Chan & Li, 2000; World Development Indicators, *various years*; LABORSTA, ILO (<http://laborsta.ilo.org>);

Hong Kong experienced a dramatic change in its economic condition. When the impact of the crisis hit Hong Kong in 1998, the stock and property market collapsed, and unemployment and layoffs increased (Table 4). Income, especially for the lower income groups, dropped (Table 5). It was not until the government intervened in the stock market in August 1998 that the deterioration gradually slowed. However, the overall economic condition was still in turmoil, as a result of depression and deflation.

Hong Kong people have had very little experience of unemployment. Since early the 1980s, the unemployment rate has been at a consistently kept low level. A long period of economic prosperity with abundant employment opportunities had given the people of Hong Kong a stable environment to generate and accumulate wealth. The government enjoyed a stable income and accumulated a huge fiscal reserve. Individual earnings were used for private saving or for financing household expenditures in various items, while abundant public finance was used to support social investment initiatives and social welfare services. This financially comfortable condition also reinforced the self-reliant ideology of the Hong Kong people (Wong & Wong, 1998). During the period from the 1980s to the late 1990s, private consumption of welfare, such as homes for the elderly, medical insurance, and education services, were common. There was a higher acceptance for increasing costs in public education, public housing rent, and public hospital charges, as the majority of the public were willing and able to pay for better quality service. These conditions were well-matched to the arrangement and principles of the Asian welfare model.

Table 4: Macro Economic Indicators, 1997 – 2000

| | 1997 | 1998 | 1999 | 2000 |
|---|--------|---------|---------|----------------------------------|
| Hang Seng Index | 13,297 | 9,494 | 12,959 | 15,095 (at Dec 2000) |
| Inflation / deflation | +5.8% | +2.8% | -4.0% | -3.7% |
| Property Price Indices (1989 = 100) | 420 | 299 | 257 | 281 (3 rd Q, 2000) |
| Government budget surplus / deficit (Financial Year, HK\$M) | 86,866 | -23,241 | 10,000* | 11,400* |

Note: * revised estimation

Sources: CSD, 2000a: 21 & 2000b: Table5.9 & 7.14; Asiaweek, Vol.23 No.51 & Vol.24 & No.51; *Hong Kong Annual Report*, various years;

The sharp rise in unemployment since 1998 has weakened the welfare system based on the individual's and family's capacity to support themselves through work, and has engendered a sudden increase of demands on public services, especially the Comprehensive Social Security Assistance (CSSA) scheme¹. As an increasing number of people are unemployed, and the real income of the majority of people who have kept their jobs has fallen (Table 5), more and more people are eligible, or compelled to apply, for assistance. This is especially true for those low-income groups.

During the past three years, the lower class, which includes the lower income group, the elderly, new immigrants, and displaced workers, is growing in number. In 1999, using 50% of the median income of Hong Kong people as a benchmark, the Hong Kong Social Security Society estimated that there are over one million Hong Kong people classified as living in poverty, and within this group, there are 360,000 'employed poor'. Between 1997 to 1999, the people living in poverty has increased by 20% (Hong Kong Social Security Society, 2000).

¹ CSSA is a non-contributory means-tested social assistance scheme for those whose income fall below a certain level.

Table 5: Income Growth Disparity in Hong Kong, 1993 – 1999 (HK\$)

| Income Deciles | Household Monthly Income (1990 Constant Price) | | | Household Monthly Income Real Change (%) | |
|----------------|--|----------|----------|--|-----------|
| | 1993 | 1996 | 1999 | 1996/1993 | 1999/1996 |
| Lowest | 2,640.1 | 2,485.1 | 1,724.9 | -5.9 | -30.6 |
| 2 | 4,903.9 | 4,848.9 | 3,909.8 | -1.1 | -19.4 |
| 3 | 6,061.2 | 6,061.2 | 5,749.7 | 0.4 | -5.1 |
| 4 | 7,879.5 | 7,879.5 | 7,014.7 | 4.5 | -11.0 |
| 5 | 9,576.6 | 9,576.6 | 8,912.1 | 5.8 | -6.9 |
| 6 | 11,819.3 | 11,819.3 | 11,499.5 | 8.1 | -2.7 |
| 7 | 14,122.5 | 14,122.5 | 13,799.4 | 7.0 | -2.3 |
| 8 | 17,759.2 | 17,759.2 | 17,249.2 | 11.1 | -2.9 |
| 9 | 23,396.1 | 23,396.1 | 23,516.4 | 10.8 | 0.5 |
| Highest | 38,670.3 | 40,248.1 | 40,248.1 | 13.4 | 4.1 |
| Average | 10,607.0 | 10,062.0 | 10,062.0 | 8.2 | -5.1 |

Source: Hong Kong Social Security Society, 2000: Table 1

Families in Hong Kong take various measures to cope with the impacts of the economic crisis. The most common strategy is to cut back their family expenses, especially the unnecessary items, such as luxury and consumable goods, and holidays. Another strategy is to use family savings to supplement their expenditure. Due to the relatively strong condition of household finances, there has not been a sudden drop in private consumption in services items such as education and health.²

However, certain sectors of society do not have the resources to cope with decreasing incomes. This accounts for the increasing number of applicants for CSSA from the government. As Table 6 indicates, the number of CSSA cases has been increasing steadily since the financial crisis, and the number of unemployed cases increased dramatically since 1998. The utilization of public health services, especially hospital services, has also increased steadily in recent years, partly due to the improved service quality.

Another alarming trend revealed in Table 6 is the increasing number of CSSA cases among the elderly. This group of people has been marginalized in the labour market, and faces limited job opportunities and lower income. The traditional model of self-reliance through work and saving no longer applies to them. Reliance on family care as a way of redistributing resources also does not apply to this group of people. When the individual and family system become dysfunctional, this group of people are forced to turn to the state.

² This is not the case in Thailand and Indonesia where higher school drop-out rates have been recorded.

Table 6: Comprehensive Social Security Assistance Scheme, Hong Kong, 1996/97 – Sept 2000

| Cases/Expenditure | 1996/97 | 1997/98 | 1998/99 | 1999/2000 | Sept 2000 |
|------------------------------|----------------|----------------|----------------|------------------|------------------|
| Total cases | 166,720 | 195,645 | 232,819 | 228,015 | 225,596 |
| Unemployment cases | 14,964 | 19,108 | 31,942 | 26,185 | 23,391 |
| Low earnings cases | 3,102 | 4,714 | 7,562 | 8,002 | -- |
| Old age cases | 98,765 | 112,067 | 124,304 | 133,070 | -- |
| Total expenditure (in HK\$M) | 7,128 | 9,441 | 13,029 | 13,623 | 13,623 |

Sources: CSD, 2000a: Table 13.3 & 13.4; Social Welfare Department, 2000

The crisis also revealed the inability of non-governmental organizations (NGOs) and the 'community' to provide adequate support to those in need. Understandably, private donations to local NGOs have dropped since the financial crisis. These NGOs have also been undermined by the government's 'lump-sum grant scheme',³ which puts a ceiling on the amount of the subsidy that they receive from the government. Faced with increasing difficulties in raising donations from the private sector and the community, it is likely that some NGOs will be forced to cut back their services in the coming years.

The deteriorating social conditions of the lower class, as well as those in the middle class who have suffered from unemployment or from losses in property and stock market investments, have led to discontent with the current government. The degree of support for the Chief Executive is consistently at a low level⁴, and the level of satisfaction with the government performance is also low. In response to increasing social demands and political pressures, the Hong Kong government has adopted a series of policies to promote employment and to assist low income groups.

These policies are in line with the ideas expressed by Tung Chee-hwa's first policy address in October 1997. He reiterated the view that a free economy is a fundamental principle for Hong Kong. He has repeatedly emphasised the merit of traditional Chinese values, including mutual care in the family, especially to the elderly. Tung's desire to improve services for the most needy in society is

³ Lump-sum grants use a fixed formula to calculate the public money allocated to subsidized service units. The service units receive a 'lump-sum' annually from the government. Previously, the government paid for all expenses and annually adjusted staff salary. The lump-sum grant scheme will be implemented in the social welfare sector in the near future. Critics argue that it signals government withdrawal from its commitment to social welfare.

⁴ The degree of support of Chief Executive dropped from 66.0 (max = 100) in July to September 1997 to 53.9 in January to March 2001. Figures quoted from the survey on the 'Rating of Chief Executive Tung Chee-hwa' conducted by Public Opinion Programme, based in The University of Hong Kong. From the same source, the percentage of respondent who dissatisfied with the performance of Hong Kong SAR Government also increased from 14.4% to 36.7% in the same period of time.

very much in keeping with the traditional notion of caring for the poor. Of course, the government cannot simply withdraw resources from its current commitments; instead, Tung argues, it can distribute these resources more effectively, with a greater share going to elderly (which is in line with the traditional Chinese filial piety ideology) and to education services (which is in line with the productivist perspective) (HKSAR Government, 1997).

The financial crisis has affected the implementation of his plans in several ways. On one hand, the government was forced to maintain or increase its expenditure to cope with the increasing social demands; the resultant deficit was not in accordance with the conservative fiscal policy of Hong Kong government. To prevent further increases in unemployment, the government has increased its investment in public projects, which provide job opportunities, expanded school intake and has created new education programmes⁵ to reduce youth unemployment. To help to stabilize the property market, the government has eliminated its target of constructing 85,000 housing units per year, and now offers more loans to people who are purchasing flats in the private market, instead of relying on subsidised housing.

In addition, the government has introduced a series of reforms to rationalise resource allocation and marketization reforms; the objectives of the reforms are to contain the rapid increase of social services expenditure since the 1990s and to reform the principles of social service provision. These two objectives, especially the second, have been on the government agenda since late 1980s. However, their progress was slow (Chan, 1996). The financial crisis gave the government firmer ground to push ahead the reforms.

While the government did not abandon the goal of promoting home ownership and supporting the property market, it launched the Tenants Purchase Scheme in 1997 -- their only 'denationalisation' scheme thus far. Approximately two-third of the residents included in phases 1 and 2 of the scheme purchased the flats that they currently occupied. As a strategy to contain the expansion of Housing Authority, part of the housing management duties were contracted in the 1990s. As a result of the Tenants Purchase Scheme, more and more contracts were allocated to private companies and in 2000, government staff were encouraged to retire early, with an attractive voluntary package.

In education, the university sector was asked to cut back its expenditure by overall 5% from 1998 to 2001, but primary and secondary education received more financial support. The government has, however, introduced policies to promote the private sector participation in education, including concessionary land leases to enable members of the private sector to build schools. In subsidised areas of education, the government has introduced measures to increase autonomy from bureaucratic control, such as Direct Subsidy Scheme,⁶

⁵ Such as the Youth Pre-Employment Training Programme and Springboard Programme for those who did not finish secondary school.

⁶ Under the scheme, the school will receive subsidy according to the number of students taken. The government will have no control on the internal management and curriculum of the schools.

which result in lesser control and financial commitment from the government. The government has mentioned, on various occasions, the possibility of introducing the voucher system in Hong Kong.

In 1999, there was a debate concerning the rapid increase in social security payments, especially in cases under the category of unemployment (Table 6). As social security payment is an entitlement for those who fulfill the eligibility criterion, the government cannot evade its responsibility. In response, the government reformed the scheme to reduce the benefit level for certain categories and to promote employment for those who qualified through unemployment (Social Welfare Department, 1998). The allowance for families with more than 4 persons has been cut. To encourage families to continue in their role of caring for the elderly, seniors who live with family members must receive the consent of all the family members before they apply for social security payments. This is to enforce the principle that the family is a unit in which there is a mutual obligation of care and support among members. Those who are able-bodied but unemployed must attend placement services regularly and, in the process of job hunting, participate in 'voluntary' services. Those who refuse to participate in placement services, job hunting, and voluntary work will be disqualified. These reforms received wide support; it was found that many people view 'unemployed' claimants as lazy and dependent, and a burden on public finances particularly when the economy is in trouble. The results of job hunting initiatives have not been satisfactory, but the number of applications in that category has dropped and the total social security expenditure has been contained.

In the health sector, the government hired consultants to conduct a review of the health finances in 1997 and the report was published in 1999 (The Harvard Team, 1999). The report stated that the government will not be able to support ever-increasing health expenses in the long run. It called for alternative finance methods, including a contributory health social insurance scheme. In 2000, the government revealed another consultation process, which recommended the adoption of personal health saving plan. The Health Protection Account was proposed; its primary objective is to lessen the public finance burden by introducing a compulsory individual saving scheme for old age. Each able-bodied Hong Kong citizen must contribute 1 to 2% of their monthly income into the account for their own health expenses after the age of 65 (Health & Welfare Bureau, 2000).

The most significant change in the past three years has been the implementation of Mandatory Provident Fund. This is the first compulsory contributory social security programme in Hong Kong. The programme provides retirement protection for those aged 65 and above, by means of the contribution of 5% of monthly wages on the part of employers and employees. The government monitors the private fund programmes to ensure that they fulfill all the statutory requirements. Since its implementation from December 2000, 80% of the employers and 90% of the employees have registered with the programme as in April 2001. The design of the programme reflects the ideology

of the welfare system in Hong Kong: individuals, through income derived from work, protect their retirement through a private market fund programme, and the government's role is purely regulatory.

The financial crisis triggered a series of social problems, and intensified social conflicts among different sectors and between the society and the government. A recent phenomenon is the rising discontent of the middle class. Professionals working in public and personal social service sectors, such as health, education, social welfare, and the civil service, have organized several large-scale protests of management reforms and new policies that affect their job security and interests. Such social conflicts and the obvious sense of discontent have generated a state of social and political crisis.

On the whole, the effect of the financial crisis are to initiate drastic reforms. Although there was no overall reduction in the level of expenses, the new initiatives are characterized by greater penetration of market principle of provision, which intensified the reforms firstly introduced in the 1980s. Tighter control of the budget and public finances, and greater attention to cost-efficiency and accountability achieved by competition and good business practices were the major principles of reform. The overall trend, in react on to the challenges of financial crisis, is to revert to and strengthen the division of labour among different systems of provisions. Individuals, through work and income, and families are the two fundamental units, with help provided by community. The public provision of services is confined to providing the necessary supports to two groups: those who have the ability to work and are encouraged to re-enter the market through various workfare programmes; and those who cannot survive without social security and public services. Existing publicly funded services have been influenced by liberal notion of market competition. Tang argues that, on the whole, Hong Kong has adopted a neo-liberal approach to social welfare (2000).

The financial crisis has, to certain extent, brought to the surface the problems of a system that relied on work and the problems involved in internal household redistribution in Hong Kong. The community (both the informal community and the NGOs) may also be unable to cope with the increasing demands, provide stable help to the people in need, or even survive with substantially less funding. The state remains the last resort of the destitute, since the claim to assistance has been recognized as an element of social citizenship. The Hong Kong government is able to cope with these demands because it has a relatively solid economic foundation and a huge reserve. However, the continuous budget deficit has forced the government to set up a committee to review the taxation policy.⁷

Two issues deserve attention. First, according the typical arrangement of the Asian welfare model, it is unclear what will happen if the state, as the last resort, cannot handle the sudden increase of demands on public resources. Second, in

⁷ The government estimates that it will have a deficit budget for the financial year of 2001/02 to 2003/04 (Financial Secretary, 2001).

the past decade, we have witnessed various social changes that put the supportive capacity of the household and community, which is the foundation of Asian welfare model, in doubt. These two issues apply not only to Hong Kong but also, in varying degrees, to the other Asian countries.

Social Impacts of Financial Crisis in Asia

Like Hong Kong, most Asian countries were affected by the financial crisis. Most faced an economic downturn, and some (South Korea, Indonesia, and Thailand) experienced the collapse of their economy. Economic problems and the subsequent reforms led to rising unemployment in these countries. As shown in Table 3, all the countries and territories experienced rising unemployment during the period from 1997 to 1999. The latest figures show that in most of these countries the situation has improved, but the level of unemployment is still higher than the pre-financial crisis level (Table 7).

Table 7: Unemployment Rates, 1997 - 2001

| Country / Territory | | 1997 | 2000 | Latest figures available in 2001 |
|-----------------------|-------------|------|------------|----------------------------------|
| East Asia | Japan | 3.4 | 4.7 (Oct) | 4.7 (Jan, 2001) |
| | Taiwan | 2.7 | 3.3 (Dec) | 3.78(Feb, 2001) |
| | Hong Kong | 2.2 | 4.4 | 4.5 (Feb, 2001) |
| | South Korea | 2.6 | 3.9 (Oct) | 4.6 (Jan, 2001) |
| Southeast Asia | Singapore | 1.8 | 3.1 (Sept) | -- |
| | Malaysia | 2.5 | 3.1 (Sept) | -- |
| | Thailand | 0.9 | 3.7 (Nov) | -- |
| | Philippines | 7.9 | 10.1(Oct) | 11.4 (Jan, 2001) |
| | Indonesia | 4.68 | 6.14 | -- |

Sources: Chan & Li, 2000; latest labour force survey of various countries/territories

In other Asian countries, rising unemployment was also accompanied by a reduction in workers' incomes. The situation was worse in countries that had experienced a high rate of inflation, such as Indonesia, Philippines, Malaysia and Thailand (Table 8). A comparison of 1998 and 1997 data shows that the real earnings per worker in Thailand, Indonesia, South Korea, and Malaysia were reduced by 21%, 27%, 10.8%, and 1%, respectively (Knowles, Pernia & Racelis, 1999:2). The real per capita household income was reduced by 20% in South Korea and 12% in Philippines during the same period (Knowles, Pernia & Racelis, 1999:3). Of the economic sectors, manufacturing and construction received the worst blow. The most vulnerable workers were youth aged below age 20, middle-aged and older workers, urban workers, and workers with low level of education (Chan & Li, 2000: 7-8 & Table 2.3.1).

Table 8: GNP Per Capita (USD Current) and Inflation Rate, 1997 -1999

| Country / Territory | | 1997 | | 1998 | | 1999 | |
|---------------------|-------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | GNP per capita | Inflation Rate | GNP per capita | Inflation Rate | GNP per capita | Inflation Rate |
| East Asia | Japan | 37,850 | 0.08 | 32,380 | 0.34 | 32,230 | -0.29 |
| | Taiwan | 13,910 | 1.68 | 13,240 | 2.64 | 13,350 | -1.24 |
| | Hong Kong | 25,280 | 5.81 | 23,670 | 0.88 | 23,250 | -5.62 |
| | South Korea | 10,550 | 3.15 | 7,970 | 5.06 | 8,490 | -1.62 |
| Southeast Asia | Singapore | 32,940 | 0.59 | 30,060 | -1.77 | 29,610 | -1.34 |
| | Malaysia | 4,680 | 3.35 | 3,600 | 9.10 | 3,400 | 1.42 |
| | Thailand | 2,800 | 4.33 | 2,200 | 9.17 | 1,960 | -2.91 |
| | Philippines | 1,220 | 6.00 | 1,050 | 10.49 | 1,020 | 7.51 |
| | Indonesia | 1,110 | 12.58 | 680 | 73.07 | 580 | 17.17 |

Source: *World Development Indicators*, various years

The worst period of the crisis occurred in 1998. Afterwards, the economy gradually stabilized; unemployment and income reduction were not as drastic as had been predicted. There has been a slight increase of income inequality in some countries⁸ (Knowles, Pernia & Racelis, 1999: 4). For example, from 1997 to 2000, the Gini Coefficient of Singapore climbed steadily from 0.444 to 0.481 (Department of Statistics, Singapore, 2001). Similarly, the number of people living in poverty increased dramatically in the early phase of the financial crisis, particularly in South Korea and Indonesia, and then gradually declined (World Bank, 2000b). The incidence of poverty, based on national poverty line, in South Korea doubled. In Indonesia, the poverty incidence has been increased by 79.6% (i.e. 20.3% of population) in Indonesia from 1996 to 1998. Thailand also recorded an increase in the incidence of poverty of 14% in the same period (World Bank, 2000a: Table 6.1).

The impact of rising unemployment and decreasing income was tackled using various strategies, by individuals, households, communities and the government. The primary strategy of individuals is to search for an alternative job. In Thailand and Indonesia, individuals responded to unemployment by relocating in rural areas and engaging in agricultural labour as a temporary measure. Some countries, such as Indonesia and the Philippines, continued and even increase the export of migrant workers to reduce local unemployment. At the same time, Malaysia, Singapore, Hong Kong and South Korea tried to reduce the import of migrant workers in order to restrict job opportunities to local workforce (Chan & Moha Asri, 1999; Moha Asri & Chan, 2000). Households across Asia have used various strategies to cope with the crisis, such as

⁸ Indonesia, however, had an improved Gini Coefficient, from 0.36 to 0.32 during the period of 1996 to 1999. The income share of the top 20% of households actually dropped while the other 80% recorded a slight increase.

See <http://www.worldbank.org/research/povmonitor/countrydetails/indonesia.htm>

altering their consumption and saving patterns,⁹ borrowing and selling assets, and increased redistribution among family members (Atinc, 2000; World Bank, 2000a: 121-123).

One of the most common areas in which spending declined was education. For example, Indonesia recorded a drop of 7% in the enrolment rate, especially for in poor households, while the Philippines also reported that 7% of families took their children out of school in 1998 (World Bank, 2000a: 123). In Malaysia, private hospitals and clinics have reported a 50% decline in the number of patients seeking treatment. In Indonesia, some people have restored to traditional healers and self-treatment, while higher drug prices are adversely affecting the treatment of AIDS patients in Thailand (Asian Development Bank, 1999). Various community initiatives have been successful in countries such as Thailand and South Korea. Indonesia has also witnessed an increase in community aid to their poorest members. For example, several communities in Java formed a rice aid campaign known as *Perelek* or *Jimpitan* in which each participating households contribute rice to families in need. However, these services gradually declined as the crisis developed (World Bank, 2000a: 123).

The government's response to the impacts of financial crisis was also crucial. Its strategies can be divided in three categories: specific employment policies; macro social policies; and macro economic policies. Each of the countries/territories adopted similar policies regarding employment services, job creation, and training and retraining strategies. All countries/territories have strengthened their employment services to provide better and updated job information to the unemployed. They also provide training and retraining programmes for the unemployed, to equip them with more updated and relevant skills. These programmes have been initiated in Singapore, South Korea and Thailand. In other words, these countries have adopted liberal market approach to support employment, as in Hong Kong.

Macro social policies include those which relieve the hardship caused by unemployment experienced by individuals and families, by regulating the price of essential items and financial assistance. Such policies include the food subsidies and regulation food costs implemented in Indonesia where the crisis was at its worst. Another policy, adopted in Thailand and Indonesia, is to provide continuous or extended assistance to the poor to cover their health and education expenses. Thailand also tried to provide social security support to the unemployed but failed due to lack of financial resources. South Korea has successfully expanded the coverage of its unemployment insurance programme. In Singapore, the public assistance programme and various aid programmes operated by voluntary welfare organisations provided aid to families in need (although there was not a sharp increase in the number of applicants during crisis). South Korea's policies were the most sweeping: it

⁹ The savings rate in Asian countries are relatively high by international standards. For example, in 1997, savings as a percentage of GDP were 33.7% in Hong Kong, 51.3% in Singapore, 35.2% in Indonesia, 35.6% in Philippines, and 12.1% in Malaysia (1995). See Flynn, 1999: Table 6.2.

expanded the social security programme, while other countries set up ad hoc programmes to relieve the pain caused by the crisis (Chan & Li, 2000: Table 3.2.2.1; World Bank, 2000a: Table 6.5).

Macro economic policies include supporting the economy by using public funding, supporting business by fostering a positive environment, restructuring the economy to meet the challenge, and revising taxation and wage policy. Almost all governments have deployed large amounts of public funding to restore the economy. To encourage the revival of the business sector, the governments of Singapore and Malaysia have also tried to suppress wage increases and to manage wage decreases to protect employment. In South Korea, employers and employees use a collective bargaining approach to reach agreements on wage negotiation and corporate restructuring.¹⁰ To protect the national economy, Malaysia has adopted the radical approach of discouraging global speculation and imposing foreign exchange control. Following agreements with International Monetary Fund, the governments of South Korea, Thailand and Indonesia have implemented a radical plan to close, merge, and restructure the financial sector and corporations (Chan & Li, 2000: 11-16).

The initial responses of Asian countries illustrates the typical welfare arrangements and strategies adopted in this part of the world (see for example, Low & Ngiam, 1999). When individuals face economic problem, such as unemployment, their first response is to try to find another job, sometimes with government support. At the same time, the household strategies may be adopted to relieve the pain. When individuals are unable to buy necessary items, they must turn to the state for assistance. This has added pressure to the state. Community mobilization occurred in some countries, as a result of the community's own initiative or with the aid of government or overseas organisations. However, the government must continue to mobilise resources to cope with the increasing demands to improve employment and to relieve hardship, by means of safety net, and other *ad hoc* policies. Hong Kong, Singapore, Taiwan and Malaysia, and South Korea (with the consent of the IMF), can mobilize public resources to meet these increasing demands. However, the governments of Indonesia and Thailand were required to adopt more stringent measures to contain their expenditure, and, with the support of international organizations, to mobilize resources to strengthen their safety net for their people. Generally speaking, neo-liberal approach was used to cope with the crisis, with an emphasis on familialism and communitarianism.

The financial crisis and its social impacts have led to important realisations. The crisis revealed the degree to which most governments were unprepared for such a challenge. The past decades of economic achievement and development have, to certain extent, conditioned the mindset of both the governing and the governed that economic development can be taken for granted, and that the current welfare system can effectively meet all social

¹⁰ However, due to the massive scale of the layoffs, the trade unions are not wholly committed to this Tripartite Commission. Labour disputes are not uncommon; the latest conflicts resulting from the restructuring of Daewoo is just one example.

demands and, at the same time, contribute to the economic development. As a result of the crisis, they realised that growth cannot be taken for granted, and, for some, public resources are inadequate to deal with the sudden increase of social demands. In a time of hardship, it was found that the social safety nets in some of the countries are insufficient, and that households and communities may not be as effective as perceived in offering support to a large number of people in need (Atinc, 2000; Ramesh, 2000).

Changing Social Trends and their Impact on the Asian Welfare Systems

Not only were the government and the state welfare system unprepared to cope with a crisis of that scale, the core of the Asian welfare system, the household and the community, were also facing difficulties. Social trends in Asia have had, and will continue to have, a negative impact on the ability of households and communities to provide welfare and support to their members.

Across Asia, we can observe common trends that are weakening the stability and integrity of the family as a cohesive and strong unit, capable of supporting its members. These trends including the increase of divorce, an aging population and a decreasing fertility rate.

In Thailand, the mean number of children born to ever married women aged 15 to 49 decreased from 2.4 in 1990 to 1.7 in 2000.¹¹ In the Philippines, the country with the highest total fertility rate, the National Demographic and Health Survey in 1998, found that 51.4% of married women interviewed preferred to have no more children, 10.4 % have already been sterilized, and 18.7% wished to have another child later. It was found that vast majority of the married women want either to wait before their next or to cease childbearing.¹²

In Singapore, the general divorce rate, measured by number of divorced people per thousand married residents, has been higher than 6% since 1995 and is steadily increasing (for males, the rate increased from 5.0% in 1989 to 6.9% in 1999; for female, it was 4.5% in 1989 and 7.1% in 1999). The number of children per each ever-married female also dropped from 2.8 in 1990 to 2.5 in 2000 (Department of Statistics, 2001b). These changing demographic trends will have far-reaching impacts on the society (Cheung, 1999). In Hong Kong, the number of divorce decrees issued increased from 5,551 in 1990 to 13,408 in 1999 (CSD, 2000a: Table 1.8). In the Philippines, the number of divorced people also increased from 280,136 in 1990 to 332,729 in 1995.¹³

¹¹ These figures are from a survey conducted by National Statistical Office in Thailand in 2000.

See <http://www.nso.go.th>

¹² See National Statistics Office, Philippines (<http://www.nso.gov.ph>).

¹³ See National Statistics Office, Philippines (<http://www.nso.gov.ph>)

Table 9: Divorce Rate, Aging Population and Fertility Rate, 1990s

| Country / Territory | | Crude Divorce Rate (per 1000 population) | Aging Population (65 & above) as % of total population | Total Fertility Rate (per 1000 population) |
|-----------------------------|-------------|--|--|--|
| East Asia | Japan | 1.28% (1990) | 12.4% (1990) | 1.54 (1990) |
| | | 2.0% (1999) | 16.72% (1999) | 1.34 (1999) |
| | Taiwan | 2.2% (1990) | 6.2% (1990) | 1.810 (1990) |
| | | 3.99% (1999) ⁽¹⁾ | 8.5% (1999) | 1.555 (1999) |
| Hong Kong | 2.1% (1998) | 9.8% (1995) 11.2% (2000) | 1.087 (1997) 0.974 (1999) | |
| | South Korea | 1.1% (1990)/ | 4.98% (1990) | 1.6 (1990) |
| | | 2.6% (1998) | 5.92% (1995) | 1.5 (1998) |
| Southeast Asia | Singapore | 1.3% (1990) | 6.1% (1990) | 1.865 (1990) |
| | | 2.4% (2000) | 7.3% (2000) | 1.475 (1999) |
| | Malaysia | -- | 3.9% (1991) | 3.1 (1999) |
| | | | 3.7% (1996) ⁽²⁾ | |
| | Thailand | 2.1% (1990) | 7.4 (1990) | 2.4 (1989) |
| 1.86% (2000) ⁽³⁾ | | 9.4% (2000) ⁽⁴⁾ | 1.8 (2000) | |
| Philippines | -- | 3.4% (1990) | 1.09(1993) | |
| | | 3.5% (1995) | 3.38 (2000) | |
| Indonesia | 0.8 (1986) | 3.8% (1990) | 3.326 (1990) | |
| | | 4.2% (1995) | 2.85 (1994) | |

Notes:

1. Taiwan's figures are the divorced population over the population aged 15 and above.
2. The number of people 65 and above actually increased from 713,728 in 1991 to 777,295 in 1996.
3. Thailand's figures refer to the percentage of divorced and separated population.
4. Thailand's figures refer to those aged 60 and above.

Sources: various national statistical offices and statistics departments;
Demographic Yearbook, United Nations, various years
http://unescap.org/pop/data_sheet/2000_tab2.htm

Of course, these figures do not suggest that the family system in Asia is collapsing, but they do indicate that the ability of the family to offer protection to its members may be diminishing due to the breakdown of the family system, and the resultant increase in the dependency ratio and caring burden. In most of the countries and territories reviewed, there has been a steady decrease in the fertility rate and increase in the percentage of elderly. If a country still has a young population, this trend may not result in a proportional increase of the age

dependency ratio, but in the more developed economies in this region, there will be an increase. It will result in an increase of the aging index, which is calculated by dividing the number of elderly by the number of youths aged 15 and below. For example, the aging indexes in Japan in 1990 and 1999 were 66.2 and 113.0, respectively, and the age dependency ratio increased from 17.3 to 24.4 in the same period. Taiwan recorded an increase from 23.0 to 39.4 during the same period, and South Korea's aging index increased from 20.0 to 32.9 in the period from 1990 to 2000. It is almost certain that these countries and territories have already faced or will face the problems of aging population. It is doubtful whether their societies have the resources to support this sector of population.

These trends add to the family's responsibilities at a time when the family's strength has been diminished by a number of trends. The increasing participation of women in labour force has reduced the caring capacity of the family. In fact, statistics show that even before the financial crisis, the family was unable to provide adequate support, in terms of transfer payments, to its members in need. In the case of Taiwan, the percentage of transfers from children and relatives to the household income dropped from 22.5% in 1989 to 19.9% in 1999.¹⁴ In countries, such as the Philippines, Indonesia and Malaysia, family transfer has accounted for 9 to 20% of their household income (Gough, 2000c). In his analysis of private transfers of payment to the elderly living alone in Taiwan and South Korea, Kwon discovered such transfers are not adequate to allow the elderly to escape from poverty (Kwon, 2000). It has also been found in South Korea that the percentage of transfers of payment to elderly has been continuously declining from 78% to 49% in the period from 1984 to 1994 (Gough 2000c). Hirtz's analysis of the situation in Philippines shows that support for poorer members of a family is often very limited since their kin system is also poor (1992).

It is also doubtful that the 'community' has the capacity to fulfill its expected roles in this welfare system. The informal community may lack the resources to provide large-scale and continuous assistance to those in need, though they may be able to help on an *ad hoc* basis. Statistics show that participation in volunteer services is not as common as previously assumed. For example, in a survey conducted in Korea in 1991, only 5.4% of respondents reported that they were actively engaged in volunteer services. Another 11.5% reported that they had participated in volunteer services in the past. The majority of the population (83.1%), however, had never performed volunteer services. In Singapore, a survey found that only 6% of the residents participate in volunteer work (Ramesh, 2000: 195). A 1999 survey in Taiwan revealed that participation in volunteer services was increasing and had reached 13.3%. However, these figures reveal that the percentage of the population that engages in volunteer work in Asian societies is lower than it is in North America (55.5% in USA and 31.4% in Canada).¹⁵

¹⁴ See National Statistics Report No. 196, <http://www.dgbasey.gov.tw/dgbasey03/bs3/report/n891013.htm>

¹⁵ Figures quoted from a survey on social development trend in Taiwan, and retrieved from

As van Rooy notes, the concept and structure of civil society are historical products and they do not have a historical foundation in Asia. There is neither strong civil society nor sense of collectivity, and most charity activities are outgrowths of family care (1998:21). NGOs have limited power and are unfamiliar in some countries; they are financially weak (Gough 2001b) and rely heavily on external funding sources to maintain their operation (Gough 2000a:25). Hewison studied the popular localism that emerged in Thailand after the financial crisis, which emphasized self-reliance, self-sufficiency, culture, community, and resistance to globalisation. However, Hewison notes that such localism is often a romantic construct, which cannot resist the global impact on national economy (2000).

The above discussion paints a bleak picture of the ability of households and communities to provide adequate and stable care and support to their members. Of course, this is not to say that households and communities have become or will become redundant in Asian welfare model. This cursory review, however, reminds us we cannot assume that these systems can be relied on now and in the future.

Another worrying trend is the medium term forecast of economic growth in this region. Economic growth provides the impetus for the creation of jobs. In the five countries that suffered most from the financial crisis, Indonesia, the Philippines, South Korea, Malaysia, and Thailand – the Asian Development Bank predicts that the average growth rate is expected to decline from an estimated of 7.1% in 2000 to 4% in 2001 (ADB, 2001). In the March 2001 issue of Asia Recovery Report, the global slowdown economic growth and the decreased demand for electronic products were identified as contributing to the uncertainty future of Asian economies. The World Bank also predicts that the economic prospects of the Asia-Pacific region in the period from 2000 to 2010 are bleaker than those of the previous decade, and that for Indonesia, the Philippines, South Korea, Malaysia, and Thailand, the average growth rate for the first decade of the 21st century will lower than that of 1999 and 2000 (World Bank, 2000c). Other factors, such as the potentially destabilizing forces of globalisation on national economies and local job market, the political instability in Indonesia, and Japan's economic crisis may further affect the recovery of the regional economy. We also must take into account the effects of ongoing mass layoffs due to corporate restructuring and need to maintain competitiveness.

The Sustainability of Asian Welfare Model

T. M. Atinc (2000: 142) observes,

The faces and the structures of East Asian societies are changing rapidly. East Asia is becoming grayer, more urban, more formal, and more open both economically and politically.... Demographic changes will bring issues of old age security....

<http://www.dgbas.gov.tw/census~n/three/social88.htm>

Economic changes, driven by shifts in employment, greater urbanization and continued globalisation, will be associated with greater labor mobility and increased household insecurity. Increased political participation will put social issues on the political agenda.

As noted, these trends will put pressure on household and community systems. As the market may not be willing or able to offer alternatives to people in need, there will be an increasing demand for more formal, government-managed schemes. When the government cannot cope with these demands, due to lack of resources or loopholes in the welfare systems, there will be widespread social problems, discontent, and instability.

Table 10: The Asian Welfare System and its Demands

| Systems | Domestic | Supra-national | Characteristics in Asia | Demands |
|----------------|---------------------|--|--|---|
| State | Domestic governance | International organizations and donors | Limited social entitlement, Low public spending and low tax | Globalised competition Low tax Limited public finance |
| Market | Domestic markets | Global markets and MNCs | Improved workfare, income and labor standard Employment protection Private consumption in private market (e.g. education and health) | Lower income growth Higher unemployment rate / risk Weakened labour standard and labor movement Weaker consumption power on private market services |
| Community | Civil society, NGOs | International NGOs | Private charity donation Volunteer organisation Localised community | Weakened community bonding and weak civil society Financial limitations of NGOs |
| Household | Households | International household strategies | 'Private' mutual care High saving rate and high internal income transfer Modified stem family Remittances | Family disintegration Increasing family burdens (aging population, higher dependency rate, and declining fertility rate) |

Source: adapted from Gough, 2000a: Figure 1

Gough (2000a:Fig. 1) has created a table to describe the structure of and

demands on the Asian welfare model. In light of the impacts of the financial crisis, and the current and the possible future economic and social trends, the effectiveness and sustainability of the system is in doubt. The efficacy of the system during the period of economic growth was due to improved employment and a rapid increase of income and accumulation of wealth. This made consumption of private market services feasible, and intra-household transfers possible. In times of prosperity, the state can maintain a relatively minimal role (though it may and has intervened extensively in selected services for maintaining economic growth) by a limited budget.

The impacts of these threats on different countries vary. For example, in countries where the economy relies on agriculture, such as Indonesia, Thailand, and the Philippines, the impact of the commodification of labour force will be lesser, and therefore, less people will be vulnerable to unemployment. In places such as Singapore and Hong Kong where there have been a high economic growth rate, which has led to sound public finances, resources will remain for a while. Places that have already built up a strong social safety net and social security systems, such as Singapore, Taiwan, and South Korea, will have less severe short-term impacts. In those countries/territories with a younger population, the pressures of dealing with the elderly will be less. However, in the long run, all the countries and territories will have to face a threat as outlined above.

In the future, earning income through work and 'workfare' in the market will still be the primary protection systems of individuals and families, partly due to the dominance of neo-liberalism in the global economy and free market system in this region. However, given the possibility of increasing vulnerability to unemployment in the future, the reliance on work, and the support of households and communities (both local and international) may not be a stable and dependable long-term welfare strategy. While acknowledging the role and contributions of the existing systems, it is also necessary to recognise the limitation of markets to fulfil needs and the current gaps in coverage of existing programmes (Ramesh, 2000). A stronger collective system of social security and policies must be installed in these societies to pool resources together to share the risks. The focus of protection should be short-term unemployment protection, accompanied by active labour training and retraining strategies, and long-term retirement and health protection, through a universal contributory social security system. Sharing the risk by pooling resources will also stem the growing trend of income inequality. Of course, these initiatives will require a redefinition of the notion of citizenship and the contract that exist among individuals, and between the state and its citizens.

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