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An Overview: Themed Section on Globalisation and Welfare Systems in Asia

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Globalisation and globalism

The latest period of expansion in the international economy has been characterised by the liberalisation of capital movements, the deregulation of major financial markets and the spread of neo-liberal beliefs in the merits of open and competitive trade, the disadvantages of big government and protectionist policies (Hirst, 1997). The rapid advancement of information and communication technology and the growth of knowledge-based economy have led to the gradual replacement of the conventional resource-based economies. 'A techno-economic paradigm of information and communications technology and the knowledge-based economy has created a new knowledge-elite class that favours free markets in this post-industrial society, characterized by globalization, decentralization, deregulation and privatization' (Low, 2003: 30–31).

Although this trend is primarily evidenced in a global capitalist system, its socio-economic implications are widespread. Globalisation is a matter of not only of trade and investment but also of the adoption of international practices and standards (Hirst, 1997: 418). It is also a 'process which embodies a transformation in the spatial organisation of social relations and transactions – assessed in terms of their extensity, intensity, velocity and impact – generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power' (Held *et al.*, 1999: 16). Critics argue that the triumph of 'globalism', a manifestation of neo-liberalism, may reduce this multidimensionality to a single economic dimension and put ecology, culture, politics and civil society all under the sway of the world market system (Beck, 2000: 9).

The impacts of globalisation on social welfare

There are conflicting interpretations of globalisation's impact on social welfare. For some, globalisation is an inevitable, natural process that is, for the most part, good for the world. Others are concerned about the potential risks and vulnerabilities attendant upon the globalisation process. 'Driven by commercial market forces, globalization in this era seeks to promote economic efficiency, economic growth and yield profits. But it misses out on the goals of equity, poverty eradication and enhanced human security' (UNDP, 1999: 44).

The pessimists have a negative view of globalisation which they see as destructive. Globalisation gives footloose capital greater bargaining power in disputes with labour and governments, resulting in a loss of employment opportunities and benefits, and thus increasing poverty and inequality (George and Wilding, 2002: 10). Globalisation directly and indirectly constrains governments' policy choices; countries must become 'competitive states' (Cerny, 1997). They cannot pursue welfare friendly policies: instead

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they shift subsidies from labour to capital, adopt a selective rather than universal focus, roll back socially redistributive policies, reduce replacement ratios, extend means testing, and divert spending to training (Alber and Standing, 2000; George and Wilding, 2002; Mishra, 1999).

Globalisation, the critics argue, is hostile to state provision for anything more than the minimal, preferring individual and market solutions. The welfare state is an economic burden that cannot be sustained in the increasingly competitive global economy. The cost of tackling the adverse impacts of globalisation is shouldered by the state's welfare programmes, but critics would argue that the cost is, in fact, borne by labour, since high income groups are reluctant to pay higher taxes to fund public welfare. Therefore, the state is inevitably faced with a 'trilemma' of maintaining employment, equity and budget stability (Gough, 2001).

Optimists maintain that globalisation will create more job opportunities, raise income and, hence, alleviate poverty. Apart from generating additional tax revenues, investment also encourages the transfer of technologies and knowledge which contributes to the human capital development of the host country (Loungani and Razin, 2001). Globalisation leads to economic improvement if nations are open to it and manage its effects appropriately (Lindert and Williamson, 2001).

Globalisation has also contributed to a greater awareness of the 'global' perspective and the global scale of intervention, which has led to the strengthening of civil society and interest group organisations. The new global space has, in general, encouraged the creation of new associations and interest groups, as well as national and international networks that offer mutual support and resources (UNESCAP, 2002). With regard to labour protection, Lee's (1997) review of labour standards and globalisation found that there is no clear evidence to support the argument that globalisation has caused a lowering of labour standards in industrialised countries.

The phenomenon of footloose capital embodied in homeless transnational corporations has been much exaggerated (Hirst, 1997). The autonomy of national welfare policies may not be surrendered to external forces if the electorate is not willing to do so (Hirst and Thompson, 1999). Gough (2001) argues that the institutional bases of provision and patterns of stratification, interests and power generate unique welfare matrices, and these account for the varied impacts and policy responses. George and Wilding also suggest that the fact that globalisation's impacts differ from country to country is due to several factors: openness to global economy, level of economic development, position in the international economy, and, hence, the constraints as set by the global forces (2002: 87–88).

Globalisation in Asia

Asia is currently characterised by the steadily increasing ratio of global (and particularly intra-region) trade, the flow of foreign direct investment (FDI) and the development of financial capital in the form of debt, portfolio investment in stock markets and investment in currencies. Governments are introducing incentives to make their own economies favourable to FDI and relaxing limitations on foreign equity ownership and foreign exchange controls. The region is a very dynamic component of an increasingly integrated global economic system led by the economies of Japan, Hong Kong, Korea, Singapore and Taiwan. Recent economic growth in this region has been sustained by China and

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India. However, the growth rate in Japan, newly industrialised economies and developing Asia countries has decelerated or even reversed, when compared to previous decades (UNESCAP, 2002; UNCTAD, 2003).

Agreements and organisations to further liberalise trade and investment in the region have flourished. For example, the ASEAN Free Trade Area established in January 2002 promotes trade, eliminates tariff and non-tariff barriers, and consolidates and rationalises production functions in the region. The goals of ASEAN Investment Area established in January 2003 are to increase FDI and to support regional integration. The ASEAN–China Comprehensive Economic Co-operation, signed in 2002, outlines a ten-year programme to strengthen co-operation between the two economic blocs, and to liberalise and promote trade, services, investment and the regionalisation of production. These incentives aim to forge closer economic co-operation and to facilitate the emergence of a regional division of labour and a production network (UNCTAD, 2003: 48–49).

Nevertheless, economic performance varies among nations. The recent inflow of FDI is concentrated in certain countries. China, Hong Kong, Japan and Singapore are all included in the list of top 30 FDI recipients in 2002. Korea and Taiwan are not in the top 30 but they still received FDI in the amount of US$ 1,972 million and US$ 1,455 million, respectively, in the same year. The recent outflow of FDI in Asian countries is mainly from Hong Kong, China, Japan, Singapore and Taiwan. In terms of openness to trade (measured by total trade as percentage of the GNP), all major Asian economies recorded a growth. In 2002, Singapore recorded the highest (281 per cent) followed by Hong Kong (250 per cent), Taiwan (84 per cent), Korea (66 per cent) and China (51 per cent) (ADB, 2003: Table 23). Japan's figure represented in total merchandise export as percentage of GNP is not impressive (approximately 10 per cent), but it is still greater than any other Asian country.

Asian countries have different degrees of openness to, and integration in, the global capitalist system. Despite their differences, the majority of these countries follow the same pattern of economic development, that is on outward-oriented. In the foreseeable future, they will likely continue to be so and more receptive to globalisation.

Globalisation and social welfare in Asia

Economic and social indicators have generally been positive in the past two to three decades. Globalisation, or at least the process of globalisation, seems to have contributed to the reduction in the poverty rate and a drop in the 'income-poor' in most of the countries in this region. The impacts are far more significant in East and Southeast Asia (UNESCAP, 2002). Globalisation has also contributed to an overall expansion of employment opportunities (especially for women) among those countries who have participated actively in global economic process. Hort and Kuhnle's review of the development of the social protection system in Asia shows that Asian countries usually introduced social security programmes when they gradually entered the global economy in the 1970s, and that welfare expansion accompanied rapid and strong economic growth in the decade from 1985 to 1995 (2000).

Evidence and arguments have also been put forward, however, to demonstrate the negative impacts of FDI on receiving countries' job opportunities, wages and social conditions. Studies in the Philippines, Thailand and Vietnam show that trade liberalisation and FDI have resulted in a loss of labour bargaining power and an increase in subcontracting

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which has widened the income gap among classes and regions. This is mainly due to the fact that capital usually favours certain economic sectors, labour groups and regions (see Cuyvers, 2001; Ishak, 2001). Cuyvers argues that globalisation in Southeast Asian countries has led to the replacement of contractual relationships and emergence of an employment pattern with more temporary and casual hiring. Though globalisation can have a positive impact on wages (unless a large labour pool upsets upward wage pressure), income distribution has not been improved in favour of the poor (2001: 7).

It has also been noted that a 'substantial part of FDI flows into developing countries after the liberalization of foreign investment rules was aimed at either increasing the share of foreign investors in firms they already controlled or purchasing outright a controlling stake in domestic firms that controlled a large share of the domestic market' (UNESCAP, 2002: 15). In such cases, FDI neither enhances exports nor creates additional employment. In fact, portfolio investments were identified as the primary factor leading to the Asian financial crisis, which precipitated a dramatic deterioration of social conditions in Asia.

The financial crisis has demonstrated the inadequacies of the social protection system in all the countries affected. Asian social security and welfare protection remain fundamentally weak and are squeezed further by the economic need to be internationally competitive (Low, 2003: 34). Nevertheless, these countries have not withdrawn from the global economy. Instead, they have worked to maintain their global competitiveness and to mitigate domestic social problems arising from the process. The countries have not simply surrendered their role to the footloose capital. Hort and Kuhnle argue that, after the financial crisis, welfare expansion is more evident in certain countries than efforts to reduce or dismantle state welfare responsibilities (2000).

Regional organisations are also determined to improve social protection in the age of globalization: the Asian Development Bank and APEC are working to develop customised social protection plans responding to their members' needs. The ASEAN Senior Officials Meeting on Social Welfare and Development is a forum to discuss and share experiences of social challenges arising from globalisation, trade liberalisation and increasing global competition. The ASEAN Work Programme on Social Welfare, Family and Population has been adopted to encourage individuals, families and communities to promote social development as well as economic development.

Prospects of welfare amidst globalisation

The process of globalisation in Asian countries seems to be inevitable. While some view globalisation as the ruthless pursuit of economic self-interest, there are signs of an intention to adopt policies that protect society and particularly the vulnerable. There is a general consensus that, due to the increasing vulnerability to external forces that globalisation entails, a series of national policies and mechanisms, including a welfare system, must be in place to cushion the impact. Better regulatory and supervisory frameworks, greater transparency, and a more advanced form of social security are necessary. 'Leaving it to individuals, families and communities to provide for social security and welfare protection is no longer viable or politically acceptable' (Low, 2003: 35).

Countries have responded in different ways, from the expansion of welfare in Korea and Taiwan to a virtually complete lack of response in Indonesia and the Philippines. These variations are the result of an array of factors: the mediating effects of their own economic and social conditions (such as erosion of family and community structures,

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increasing ageing population, rural–urban migration), the form of political governance, and the characteristics of the national and regional welfare regimes (Chan, 2003; Kwon, 2003; UNESCAP, 2002).

The diverse effects of and responses to globalisation reflect the fact that economic globalisation in itself does not determine the future of social welfare policies in Asian countries. Local impacts and responses are shaped by both external and internal factors and processes. As Ramesh observes in his review article, there is too little literature to provide a detailed examination of globalisation and social welfare in Asia. The papers in this issue, despite their different focuses, provide certain insights on two questions: how have the different countries reviewed (in this issue including China, Hong Kong, Japan, Korea, Singapore and Taiwan) been affected by globalisation, and how have they responded to these challenges, given their own unique context?

These countries are not, and cannot be, insulated from the forces of globalisation; they have experienced both positive and negative effects on their economy and employment. They have experienced rapid industrialisation in the past and are gradually moving toward, or already have in place, a service-dominated and knowledge-based economy. While gaining benefits from the globalisation process, these countries have gradually become aware of its drawbacks, which are most keenly felt by the vulnerable groups of their societies. Local economies are increasingly vulnerable due to global competition and relocation of local capital (e.g. from Taiwan and Hong Kong to Mainland China). In every economy stable employment is increasingly threatened. This is even the case in Korea and Japan in which large corporations used to offer life-time employment. In China state-owned enterprises are suffering from increasing competition and have been forced to close down or lay off millions of workers. Growing income disparity and, hence, increasing social division are evidenced in these societies.

Social welfare initiatives have been adopted to tackle these adverse impacts. While adopting a neo-liberal economic policy, these governments have not neglected the need to establish or strengthen public welfare and social security systems. Among these countries reviewed, none remained apathetic to the social problems attendant on globalisation. Their responses ranged from improving the basic protection to the vulnerable through social safety nets (in China), re-structuring of social security system (in Hong Kong and Singapore), to rapid expansion of the public welfare system (in Taiwan and Korea).

Initiatives in Japan and Hong Kong focused on society's shared responsibility and reducing state responsibility: the private sector and the individual shouldered a greater portion of the burden. Low argues that Singapore's Central Provident Fund needs to be reinvented so that it reflects the transition from factor- and investment-driven economy to innovation and knowledge-based economy. While maintaining the same level of social expenditure, public resources have been increasingly diverted to productive investments, such as education and Active Labour Market Policies (e.g., training and social security reforms) in Hong Kong, Korea and Singapore. Concerns have been expressed about the financial sustainability of the welfare systems in places such as Hong Kong, Korea and Taiwan where they have significantly increased their social expenditure, either voluntarily or involuntarily.

The papers in this issue reveal a general consensus that state does not simply surrender its power to the forces of globalisation. However, in Hong Kong, Korea, Taiwan and Singapore, it appears that the demands of globalisation are imposing increasing constraints on these states. They are facing the need to balance economic and labour competitiveness

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with protection for the vulnerable. In addition, states also have to deal with their own social challenges, for example in Japan and Singapore the ageing population requires aid and attention.

The papers gathered here suggest that social welfare systems are not simply eroded when countries are increasingly globalised. However, governments are currently re-examining the strengths and weaknesses of their current systems to better meet the challenges presented by globalisation. Achieving a balance among stable employment, social equity and fiscal viability is extremely difficult. The need to maintain competitiveness is paramount. Yet, globalisation, as informed by neo-liberalism or globalism, does not simply dictate countries' path of welfare reforms.

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