

## **Availability of Social Safety Nets in Asia-Pacific Region**

### **Plenary Session 2**

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Thank you for inviting me to this very important conference. Mr Kuroda, the ADB President, has just provided an excellent analysis of development strategies for Human Security in the post-Global Economic Crisis environment.

The topic of the Plenary session is apt as it focuses on the longer term responses rather than only the short-term responses.

During the 1997-98 Asian Financial Crisis, there was similar intense interest in the social safety nets. But as the recovery was 'V shaped', and in particular as external demand revived quickly, the interest was not sustained. Asia has had an exceptionally strong growth record since then. Even in the current global crisis, Asia's growth rate is holding up reasonably well, thanks in large part due to its solid fundamentals and aggressive stimulus packages.

The current global crisis is once again leading to intense focus on social safety nets. It is encouraging that retirement and healthcare financing (long term issues) are receiving considerable attention, and that the focus is not just on providing cash and other assistance or transfers in the short term.

What are the main impacts of the global crisis which could impinge on social safety nets?:

1. Reduced medium term growth rate, the single most important macroeconomic variable impacting on the economic security of both the young and the old;
2. Adversely impact on the pace and quality of jobs and livelihoods creation;
3. Raise the cost of debt refinancing (particularly for highly leveraged economies);
4. Potentially lower remittances flows (in many countries, these are larger than FDI, portfolio flows, and ODA combined);
5. Potentially lower medium term real investment return on pension assets;

6. Aggressive fiscal and monetary stimulation could lead to inflation, constraining fiscal space for expanding social safety nets;

On the positive side, the global crisis could be an opportunity to extend social safety nets as an important component of rebalancing the economies. This extension will need to be undertaken in the specific context of developing countries of Asia-Pacific.

In many Asia-Pacific countries, formal sector employment is low – in the range of 25- 35 percent. Even in high-income countries such as Japan, nearly one-third of labor force is no longer on full-time contracts. So the path followed by the OECD countries in extending coverage through the expansion of formal sector employment is not particularly applicable as high informal sector employment will remain a characteristic of Asia Pacific economies. Moreover, as many countries in Asia are rapidly ageing, they will have more mature demographic profile before they attain high income status. This suggests that the time available for extending coverage of social safety nets is also relatively less than was the case in the OECD countries.

Asia's demographic profile implies that between 2005 and 2020, 62 percent of potential global livelihoods will need to be created in Asia. The high proportion of informality in labor force, and need for potential livelihoods, suggests that the role of retirement income transfers, sometimes called social pensions, and of social assistance targeted at the poor across all age groups will increase. Chile's recent reforms emphasizing social pensions, and non-contributory transfers are instructive in this regard.

Asia-Pacific would need to adopt a package of measures to extend social safety nets, with the relative importance of each varying according to country contexts, capabilities, and policy priorities. There are encouraging signs that many of the countries have already begun to take initiatives along the lines suggested below, though the progress in most countries needs to be more rapid.

1. Modernizing and professionalizing existing social security organizations in performing core functions. (big bang approaches without such reforms may face challenges)
2. Parametric reforms – in pension formulas, increasing retirement age, indexing, etc will need to be managed better. This also applies to civil service pensions.
3. Systemic reforms – this may include for example a shift from Defined Benefit (DB) to Defined Contribution (DC) pension systems, with appropriate grandfathering provisions.
4. More creative and extensive use of retirement income/social assistance transfers, which do not depend on formal labor market relations, requires fiscal space and efficiency in delivery of public services.
5. Others such as reverse mortgages; rapid increase in healthcare coverage, mostly through budgetary support, as in China and Thailand; developing occupational or private pension plans, etc.

There are encouraging signs that many Asia-Pacific countries would like to sustain focus on social safety nets as one of the major responses to current global economic crisis. So there is room for optimism. Given that more than half of the world's elderly will be in Asia by 2050 (and all of them are already born), how Asia addresses the demographic challenges will essentially determine the extent to which these challenges are met globally.

Thank you.