GLOBALIZATION AND ITS IMPACT
ON THE WELFARE STATE CONCEPT IN DEVELOPED
AND DEVELOPING COUNTRIES*

La globalización y su impacto en el concepto del Estado del bienestar en países desarrollados y en desarrollo

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Resumen

Este documento tiene como objeto conectar la globalización con las concepciones propias de un Estado de Bienestar. Sabemos que el Estado de Bienestar se está viendo severamente desafiado por la inminente llegada de la globalización. Mientras que los sistemas de bienestar social se centran en las necesidades de unos países específicos, la necesidad de competir con otros países los presiona de manera significativa para establecer un programa común de bienestar. No obstante, este desafío no es sencillo, en la medida en que las provisiones con las que cuenta el programa de bienestar social no disfruta de productos de reciente desarrollo, sino de antiguas tradiciones que ayudaron en su momento a que estos países llegasen hasta donde están actualmente. Al mismo tiempo, los países más jóvenes están desarrollando sus propios sistemas de bienestar social, adaptados a las capacidades y al programa económico de sus propios

gobiernos. Con estas diferencias, parece que la globalization puede ser visto tanto como un punto en común como un punto de divergencia, según en qué lado se beneficiará más una nación. Usando diferentes objetivos y enfoques, podemos concluir que efectivamente la globalization ha fortalecido y mejorado los sistemas de bienestar social en los países desarrollados que se unen en lugar de divergir. Los países en vía de desarrollo, por su parte, tienen diferentes sistemas, pero no empleando un método lineal, sino por la globalization. Esta es precisamente la razón por la cual no tenemos un sistema de bienestar social común en estos países.

Palabras clave

Estado de Bienestar; globalization; programa común; divergencias.

Abstract

This paper is an attempt to link Globalization with the ideas of Welfare State. There are notions that the Welfare State is severely challenged by the borderless approach of globalization. While welfare regimes are focused on the need of specific countries, the need to be competitive against other countries is observed to be putting significant pressures for countries to have common welfare programs. Nonetheless, this challenge is not simple considering that the provision of welfare programs are not products of recent developments but of old traditions that have helped countries to where they are now. At the same time, younger nations are developing their own welfare regimes tailored to their own governance capacities and economic agenda. With these differences, globalization is seen to be a rallying or a diverging point depending on which side will one nation benefits the most. Using different lenses and approaches, we conclude that globalization has in fact strengthened and improved welfare systems in developed countries where they converged instead of diverging from each other. Developing states, on the hand, have different welfare regimes that they are adapting not in a straight line but in a case approach to globalization. This is the reason why we do not have a common welfare regime for these countries.

Keywords

Welfare state; globalization; common agenda; divergences.
I. INTRODUCTION

Globalization has made significant changes in the way of doing things both in the developed and the developing world. Its main idea is that efficiency of economic units everywhere can make products and services affordable and available to most if not everyone. This can be made possible as it should lead to free movement of capital; international division of labor based on comparative advantage; increased competition, faster pace of innovation and technology adoption and economies of scale of production. Beginning in the 1980s, its impact has been observed in the way countries are governed even as physical borders have remained, capital and to a certain extent, labor, has began moving in different areas. This has led to creation of regional blocs and economic cooperation. With this new order of economic governance, traditional government and social activities have begun to be affected as well. In particular, the provision of certain government services were seen to be reduced as nations have started to focus on making their economic capacities more competitive. Questions arise whether these services considered to be “rights” of citizens are now subject to reduction – meaning these “rights” are not absolute but state-provided only when resources allow. These package of “rights” when provided by the government will lead to one being called a Welfare State.

We are then faced with the question – Has globalization reduced the concept of a welfare state? This question, however, is only applicable to developed states. Nations that were formed after the second world war have a different concept of a welfare state. This question therefore becomes broader in the sense that we need to define the context of what a welfare state is both from a developed and a developing country perspective. Only then can we apply the question how globalization impacts the welfare state.

In this paper, we will look first at the historical perspective of a welfare state, we will review the literature on this topic by considering models of welfare state in the course of developed countries development. We will then look at how they are applied to developing countries. In particular, we consider the regional bloc of Southeast Asian countries and the case of the Philippines. Thereon, we will consider the expectations that globalization brings and their perceived impact to welfare statism to both developed and developing nations. The final section concludes.
II. HISTORICAL DEVELOPMENT OF THE WELFARE STATE

The idea of a welfare state originated in the developed states. It can be traced primarily from the idea of providing support to those in old age, widows and orphans. The challenge of making this work has to do with who will pay for the support. Earlier ideas called for non-contributory pension and therefore funded by the State. This was possible when there were only a few who would qualify for the pension. For instance, Britain originally provided for this kind of pension for those 70 years and above when the life expectancy was only 48 years old. As more people became healthy and reached 70 years of age, more people now need to be covered. The State, therefore, is forced to find ways of alternative funding support. As Western countries become developed, welfare expanded beyond old age, widows and orphans. The State, now considers a number of social and economic processes as having far reaching effects to society today and in the future. Towards this consideration, the concept of the Welfare State superceded the idea of what is known as public goods and private goods. In general, public goods are called as such because they have the property of indivisibility meaning when government provides them everybody benefits. Such is the case of national defense, vaccination, clean environment, among others. The other extreme of this is private goods or those that are uniquely possessed once acquired by a person. Along these concepts, the Welfare State is ideally focused only on the public goods because once provided, everybody benefits. Education, health and pension are actually private goods because the benefits accrue to the individual citizen. Because a healthy, educated and insured person will surely be better off in life, the State somehow recognized the need to provide for these since they allow equality of opportunities, somehow distribute wealth equitably and make public responsibility the minimum provisions of the necessities for a better life. We can therefore say that in Welfare States, government plays a significant role in the promotion and protection of the economic and social well-being of its citizens. Effectively, the State takes responsibility of the welfare of its citizens. The basis for this role are based on the principles of equality of opportunity, equitable distribution of wealth and public responsibility for those who are unable to provide themselves with the minimum provisions of quality living.

In order to fully appreciate how the Welfare State developed, we here consider three (3) papers that have extensively discussed the development of the welfare state in the developed countries and how the developing countries followed suit. Navarro et al (2004) cites four (4) major traditions that define what a welfare state is in developed countries. In particular, they consider OECD countries and their welfare policies from 1946-1980. The four (4) traditions are: social democratic, conservative, liberal and dictatorial.
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social democratic is characterized by very large social transfers of a universal character (in this context the benefits provided by the State is considered as citizen’s rights). The others are varying in nature. The table below summarizes their differences with major countries that follow that perspective.

<table>
<thead>
<tr>
<th>Social Democratic</th>
<th>Christian Democratic/Conservative</th>
<th>Liberal</th>
<th>Dictatorial</th>
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<tbody>
<tr>
<td>Large social public expenditures and large public employment for health, education and family-related services</td>
<td>Large social transfers to social contributions from labour market</td>
<td>Low social transfers</td>
<td>Low public expenditures</td>
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<tr>
<td>Low household inequalities, low annual hours of work per worker, high labour compensation and lower poverty in all age groups</td>
<td>Low public employment, high labour compensation, higher household inequalities, low annual hours of work and relatively low poverty</td>
<td>Low public employment, very high household inequalities, very high annual hours of work per worker and high poverty</td>
<td>Very low public employment, very high inequalities, very high annual hours of work per worker and very high poverty</td>
</tr>
<tr>
<td>Sweden, Norway, Denmark, Finland, Austria</td>
<td>Belgium, Netherlands, Germany, France, Italy</td>
<td>Canada, Ireland, UK and US</td>
<td>Spain, Greece, Portugal</td>
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</table>

Jessop (2016) explains further that these classifications of Welfare State (with the exception of the dictatorial) can be stylized as follows: a) they aim to secure full employment through a closed economy by supporting demand-side management or encouraging consumption, b) aiming for a family wage that will ensure that all citizens share in the fruits of economic growth that can increase consumption, c) welfare programs are the chief supplement to market forces in securing economic growth and social cohesion. The State has a major role in facilitating and correcting the operation of market forces and in shaping civil society and citizen’s identity.

Rudra (2006), meanwhile simplifies the classification of welfare states into two (2). She said that welfare states can either be a Productive Welfare State or a Protective Welfare State. Protective welfare states have
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historical roots that focusing on protecting society and domestic economy from international competition. The state ensures that citizens are provided the necessary requirements for a better life through good social policies. In short, they are to protect individuals from the effect of the market. Productive welfare states, on the other hand, is focused on participating in long term competition and government is not as active in managing market forces. This is somewhat akin to what is a liberal welfare state. Public intervention is focused to improve international market participation. She also explained that in developed countries, these classifications do not exist in the sense that OECD countries are have a long period of adjustments starting from their industrialization stage to their reaching developed status. These classifications, however, is distinctively observable among countries that transitioned from developing countries from independence to the present.

These studies clearly provided us the perspective on what a Welfare State means. It is not a straightforward definition for it varies across nations and levels of development. Hence, we cannot have a single answer to our research question. Nonetheless, we now have an understanding that both politics and economics play a major role on the kind of welfare state regime that will be present in a country. Countries that have continued to embrace social democratic principles have made more or less maintained that provisions of the welfare state are “rights” but others have limited and defined it further depending on their level of economic development and their economic strategy.

III. WELFARE STATE REGIMES ACROSS OECD

Navarro et al (2004) uses a series of indicators to measure and compare how welfare states in OECD countries behave. They also suggest to look at the following indicators: share of total taxation, sources of tax revenues, size of public expenditures in health, education, social services and public sector employment. For our purposes, we consider the following information readily available from the OECD database:

Main Indicators of State Participation in OECD Countries:

- Social Spending
- Pension Spending
- Public Unemployment Spending
- Family Benefits
- Social benefits to households
- Public spending on incapacity
- Public spending on labor markets
These indicators more or less give us some indications of how the OECD countries have performed in relation to their implementation of their welfare regimes. The following provide definitions for each of the indicators for better appreciation of their implications and a chart showing how the different OECD countries implement their programs. All the data and definitions are from the OECD.

- Social expenditure comprises cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes. Benefits may be targeted at low-income households, the elderly, disabled, sick, unemployed, or young persons.

Chart 1. **Social Expenditures as a percent of Gross Domestic Product**

- Pension spending is defined as all cash expenditures (including lump-sum payments) on old-age and survivors pensions. Old-age cash benefits provide an income for persons retired from the labour market or guarantee incomes when a person has reached a ‘standard’ pensionable age or fulfilled the necessary contributory requirements.

- Public unemployment spending is defined as expenditure on cash benefits for people to compensate for unemployment. This includes redundancy payments from public funds, as well as the payment of pensions to beneficiaries before they reach the standard pensionable age, if these payments are made because the beneficiaries are out of work or for other labour market policy reasons.
Social benefits other than social transfers and social transfers in kind. The distinction between the two is important. Transfers relating to the former are typically in cash and so allow households to use the cash indistinguishably from income coming from other sources, whereas transfers under the latter are always related to the provision of a certain good or service, and so households have no discretion over their use.
Family benefits spending refer to public spending on family benefits, including financial support that is exclusively for families and children. Child-related cash transfers (cash benefits) to families with children, including child allowances, with payment levels that in some countries vary with the age of the child, and sometimes are income-tested; Public spending on incapacity refers to spending due to sickness, disability and occupational injury. It includes disability cash benefits that are comprised of cash payments on account of complete or partial inability to participate gainfully in the labour market due to disability.

The charts above provide us a perspective of how each OECD country treats the different components of their welfare regime. As was discussed, there is a strong correlation between the political party in power and the economic objective followed by the party in defining whether the activities of the State means providing for a right or for a privilege.

According to Almunia (2008), despite these differences, the consensus among these countries is ensure that the following are in place and sustained.

Chart 5

IV. DEVELOPING COUNTRIES AND WELFARE STATE REGIMES

As correctly pointed out by Rudra (2006), developing countries differ significantly in their application of the welfare state regime. It can be observed that their initial implementation pattern stems from their colonial heritages. For instance, most countries in Asia were British colonies so they followed the British model or they simply carried on the welfare programs during their colonization. Nonetheless, the observable pattern was that since they are developing countries, their welfare state regimes are not as robust and rigid as that of the developed countries. Citing Wilensky (1975) and Cutright (1965), developing countries cannot afford welfare regime at low levels of economic development. The debate is focused on the idea whether developing countries should focus on using state intervention to maintain markets or to use it to provide social protection against market breakdowns. Experience have shown that countries in Asia that have developed faster than the others
focused their welfare regimes on developing productive welfare states in which the state plays a major role in managing and organizing the economy. This is close to what is described above as a protective welfare regime. The State role is primordial creating a fusion of socialism and conservatism. Likewise, there is a blurred line when the State acts differently for the purpose of using intervention to broaden international market participation.

Using the ASEAN perspective, we will use data from the Asian Development Bank (ADB) and provide some comparisons with OECD countries. As observed in OECD countries, the size of government based on expenditures to GDP tends to increase as per capita income rises. As countries grow richer, they have bigger governments due to: a) removal of informal sector and b) demand for more public services for the poor. ADB estimates that OECD countries tax revenue is 35% of GDP, while that of Asia is less than 15%. This is a large discrepancy that limits developing countries to provide the same level of welfare programs that OECD can provide. Chart 6 provides the comparison that while Asia is developing and catching up, it is still unable to provide the same welfare regime that OECD countries can provide. The tax revenues that will be used to fund their implementation is significantly lower. Likewise, developing countries do not have the same capacity to borrow to fund government programs. The large tax revenues require that rich countries have more resources to invest in equity enhancing programs enumerated previously – this makes governments in OECD three times bigger than that of Asia. In terms of public expenditure share to GDP – OECD records about 45% of GDP, while Asia just above 20% of GDP.

**Chart 6. Size of Governments in Asia and OECD**
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Most countries in ASEAN will not be able to easily expand welfare programs because their current programs already have majority of them in deficits that are larger than what is sustainable. Ideally, countries should not have expenditures larger than their revenues by more than three (3) percent of their gross domestic product. The table below will show that most countries are in the borderline or above that limit.

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<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>10.9</td>
<td>21.1</td>
<td>15.6</td>
<td>25.6</td>
<td>15.7</td>
<td>10.1</td>
<td>-0.7</td>
<td>-14.0</td>
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<tr>
<td>Cambodia</td>
<td>-2.1</td>
<td>-0.7</td>
<td>-8.8</td>
<td>-7.6</td>
<td>-6.8</td>
<td>-7.1</td>
<td>-3.8</td>
<td>-2.6</td>
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<tr>
<td>Indonesia</td>
<td>-1.1</td>
<td>-0.5</td>
<td>-0.7</td>
<td>-1.1</td>
<td>-1.8</td>
<td>-2.2</td>
<td>-2.1</td>
<td>-2.5</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>-4.6</td>
<td>-4.5</td>
<td>-2.2</td>
<td>-1.6</td>
<td>-1.2</td>
<td>-5.8</td>
<td>-3.6</td>
<td>-3.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-5.5</td>
<td>-3.4</td>
<td>-5.3</td>
<td>-4.7</td>
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<td>Myanmar</td>
<td>0.7</td>
<td>-4.3</td>
<td>-4.6</td>
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</tr>
<tr>
<td>Philippines</td>
<td>-3.7</td>
<td>-2.6</td>
<td>-3.5</td>
<td>-2.0</td>
<td>-2.3</td>
<td>-1.4</td>
<td>-0.6</td>
<td>-0.9</td>
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<tr>
<td>Singapore</td>
<td>9.7</td>
<td>6.4</td>
<td>7.4</td>
<td>9.1</td>
<td>8.5</td>
<td>8.1</td>
<td>7.2</td>
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<tr>
<td>Thailand</td>
<td>-2.8</td>
<td>0.1</td>
<td>-2.9</td>
<td>-1.6</td>
<td>-2.2</td>
<td>-0.9</td>
<td>-2.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>-4.3</td>
<td>-1.0</td>
<td>-2.1</td>
<td>-0.5</td>
<td>-3.4</td>
<td>-5.0</td>
<td>-4.4</td>
<td>-4.6</td>
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The ADB also compared all its member countries in Asia and found that their levels of implementing basic welfare programs such as social insurance or equivalent to pensions, social assistance to the poor and labor market programs to assist people to have better incomes or unemployment insurance are significantly different from each other. The difference is driven largely by the difference in the stage of economic development such as Japan, Korea and Singapore and for those countries coming from high socialist orientation such as the former USSR republics.

It should be noted that in Asia, the idea of Welfare State is based on Asian Values – giving priority to social harmony and socio-economic prosperity over the universality of human rights perspective of the West. In the Philippines, the concept of a welfare state seems to be far from the western ideal. For one, the country’s expenditures on health and education are one of the lowest in the region. Constitutionally, basic education is free and basic health insurance is available for all. In practice, however, provision is much different from availability and quality. These can be observed by the basic health and education indicators in the country. This is because the State has continually suffer from deficits unable to provide for the
minimum basic needs that it is envisioning for its citizens. Nonetheless, as the country catches up from its ASEAN neighbors, the country is finally able to increase significantly its expenditures on these basic elements of welfarism. Among the critical investments it has made in this regard is the implementation of the massive conditional cash transfer program called the 4Ps. Covering about 5 million families, this has become the centerpiece of the Aquino administration’s welfare program. In addition to this, the State also vigorously implements the Senior Citizen’s Act providing significant benefits to those aged 60 years old and above. Recently, the President approved an increase of P1,000 for the pension of social security. Definitely, these are elements of an increasing capability to provide better welfare benefits for the citizens. The challenge nonetheless is the sustained availability of funds to finance all of these. It is necessary to provide a proper balance between what is the minimum that the State can afford and what the citizens perceive to be entitlements. This is why the Asian Values perspective of peer Asian neighbors are critical in assessing the effectiveness of Welfare State in the region. Many of the ASEAN neighbors reached high economic growth without implementing these minimum standards to the letter. They focused on increasing incomes and allowing their citizens to individually purchase better and quality education and healthcare in their local and international markets.
V. GLOBALIZATION AND HOW IT AFFECTS THE DIFFERENT WELFARE STATE REGIME

Our discussion in the previous sections talked about the different welfare regimes and we have indications that these regimes whether in developed or developing countries are dependent on the political and economic agenda of the government in place. Prior to the aggressive implementation of globalization policies in the 1980s, most developed countries were able to maintain a protective type of welfare state. They were able to do so because of the level of economic development they have achieved prior to this stage. Developing countries, on the other hand, have different approaches beginning from somewhat productive welfare regimes because of the need to compete for export markets. Welfare programs are not a matter of right but as a matter of capacity to provide.

With differing strategies in implementing their welfare regimes, there is a conscious concern on how the globalization will actually alter the way of implementing these programs. The different studies we reviewed previously provides us with working analysis of their impacts using different metrics. Recalling the definition of globalization which is mainly a “dominant world phenomenon representing a technological, economic and political integration of the world.” (Mitrovic 2008). This phenomenon removes borders for production, finance, communication and eventually labor. The objective is to create a global market that everyone can access and avail based on the values of efficiency and democracy. It should lead to free movement of capital; international division of labor based on comparative advantage; increased competition, faster pace of innovation and technology adoption and economies of scale. Consumers should enjoy wide variety of goods at competitive prices. It can create better growth and employment opportunities but also inequalities – mobility and less stable careers – limiting progressive taxation systems. There are various good and also challenging impacts that governments whether developed or developing should face. The issue is how fast can states adjust to the requirements of this new regime.

As competition becomes the order of the day, states with large welfare bill are seen to be in a disadvantage to states that only provide for basic protection. The issue is not to avoid or stop globalization but how to adapt as soon as possible. Too expensive welfare bill will make some developed countries unable to compete and thus are expected to give up some “rights” and downgrade some to “privileges” as done in developing countries. “Welfare states is a great burden for the economy as the potential for economic growth and competitiveness are strained with high expenses imposed by the welfare state” – Mitrovic (2008). He added that globalization is not only making products and services cheaper, it is allowing people from different borders to make a living without physical borders particularly those doing
analytical invisible work raising the bar for specialized and highly trained workers. This will push aside low wage jobs and non-qualified labor is getting larger. This also raises the case for more welfare programs especially to compensate the losers created by the globalization environment.

Navarro et al (2004), however, refutes these concerns and proves that globalization did not lead to decline in the welfare state regime in OECD countries. Using historical data from the OECD, they found that during the globalization period that “there has been no decline of social public expenditure, there is no convergence towards diminished welfare states and the level and type of social public expenditures continue the patterns established in the pre-globalization period.” In fact for former dictatorships, the shares actually increased by double. For liberal countries, minor increases were also observed. This shows that across the types of welfare regime, fears for the welfare state to lose importance under the globalization is unfounded. For OECD countries, the pre-eminence of protecting the citizens of their countries sort of validate the “rights” arguments. These set of welfare measures cannot be easily removed despite changes in the global environment. In fact, the OECD seemed to have looked at providing safety nets for its citizens to enable them to face the challenges brought about by the shrinking physical borders and faster movement of resources.

However, the same cannot be said for developing countries as we do not have actual studies yet supporting the same. This could be an area for future studies. Rudra (2006) has the closest work on welfare state regimes in developing countries. Her conclusion is instructive and contributory to this work. Essentially, she concludes that welfare state regimes in developing countries differ significantly. The recommendations of international organizations on focusing on education and labor reforms can work for some but not for every developing nation. Stages of development of developing countries dictate the welfare state regime that they will pursue. Taking on protective welfare regime and going into globalization strategy can lead to various issues and tensions between business, labor and government and to a certain extent foreign capital. She asks the same questions if pursuing different welfare strategy will make one better off in terms of equity, growth and reduction of poverty or is it poverty that is forcing countries to adopt a different kind of welfare state regime. The concern is the same – what will the new international competitive market do to the existing welfare state mechanism in the developing countries regardless of the approach they have taken.

VI. CONCLUSION

This paper attempted to explain the link between globalization and the welfare state. The previous sections clarified that there is no single definition
of a welfare state because different country experience, level of development and its political-economic agenda shape the welfare state policies of nations. Different studies have attempted to look at welfare state and provide a clear delineation of factors in order for us to come up with a concrete analysis. From different lenses, we have been made aware of differences in both developed and developing country settings to implement welfare state regimes. Using the experience of OECD and of ASEAN, we find that the elements of welfare state differs across countries. When taking globalization into consideration, we find that the welfare state regimes are further complicated as each country is faced with its own approach of dealing with its positive and negative impacts. Findings of studies also show that globalization failed to make developed countries lower their welfare state expenditures. In fact, OECD data proves that most if not all increased their public expenditures related to welfare programs. These strongly suggest that OECD states consider their welfare programs in the context of “rights” of their citizens even if not all states practice the same level of welfare programs. While data is not available for developing countries, we can already conclude that each country also has in their agenda the protection of their local citizens against the negative impact of globalization.

Finally, for countries trying to balance their welfare programs and their desire to gain from globalization, it must be important to note that poverty cannot be addressed in the old paradigm of the Welfare State redistribution. Each country must examine its own needs for social benefits – but it must focus on defining and funding social justice to sustain future benefits of the country in the context of better conditions for education, advanced training which will allow them to compete for jobs both locally and beyond. Countries, nonetheless, should follow the minimum basic rights of people regardless of their stage of development. This should include basic health, basic education, basic income security for the dependents (children, elderly and PWDs), focusing on capacitating the poor get through the poverty line.

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