

DESA Working Paper No. 40

ST/ESA/2007/DWP/40

June 2007

Transforming the developmental welfare states in East Asia

Huck-ju Kwon

Abstract

This article attempts to explain changes and continuity in the developmental welfare states in Korea and Taiwan Province of China (hereafter Taiwan) within the East Asian context. It first elaborates two strands of welfare developmentalism (selective vs. inclusive), and establishes that the welfare state in those countries fell into the selective category of developmental welfare states before the Asian economic crisis of 1997. Secondly, this paper argues that the policy reform toward an inclusive welfare state in Korea and Taiwan was triggered by the need for structural reform in the economy. Lastly, this paper argues that the idea of an inclusive developmental welfare state should be explored in the wider context of economic and social development.

JEL Classification: O10, I38, D78

Keywords: Developmental Welfare State, Social Policy, Korea, Taiwan, East Asia.

Huck-ju Kwon is Professor at Graduate School of Governance, and the Director of the BK21 Governance Programme, Sung Kyun Kwan University, Seoul, Korea. E-mail: hkwon@skku.edu. He is also Regional Editor of *Global Social Policy*.

Comments should be addressed by email to the author.

Contents

East Asia and two strands of welfare developmentalism	2
Changes in economic structure and redefining developmental social policy	5
Democratic politics and inclusive social policy	10
Concluding remarks	13
References	14

UN/DESA Working Papers are preliminary documents circulated in a limited number of copies and posted on the DESA website at <http://www.un.org/esa/desa/papers> to stimulate discussion and critical comment. The views and opinions expressed herein are those of the author and do not necessarily reflect those of the United Nations Secretariat. The designations and terminology employed may not conform to United Nations practice and do not imply the expression of any opinion whatsoever on the part of the Organization.

Editor:

Typesetter: *Valerian Monteiro*

United Nations
Department of Economic and Social Affairs
2 United Nations Plaza, Room DC2-1428
New York, N.Y. 10017, USA
Tel: (1-212) 963-4761 • Fax: (1-212) 963-4444
e-mail: esa@un.org
<http://www.un.org/esa/desa/papers>

Transforming the Developmental Welfare States in East Asia¹

Huck-ju Kwon

This paper attempts to explain changes and continuity in the developmental welfare states in Korea and Taiwan within the East Asian context. The welfare states² in these two economies have undergone significant changes since the Asian economic crisis of 1997-1998. These changes seem to counter the neo-liberal argument that market driven globalization renders the welfare state of marginal importance in economic life (e.g. Beck, 2000; Ohmae, 1995). There have been counter-arguments to this assertion, but the analysis is fairly based on European experience (e.g. Pierson, 1998). The welfare reforms in Korea and Taiwan have also strengthened state institutions and the welfare state in particular amid instability and flexibility in the globalized market. Nevertheless, political and economic dynamics in these countries differ from those in European countries. What are the underlying dynamics of such reform and are there policy implications in the development context? To answer these questions, it is necessary to adopt a developmental perspective as well as a social policy approach, since social policy in these countries has been established as part of the overall framework of economic development.

Through this unified approach, this paper will argue that the welfare reforms in Korea and Taiwan have pointed toward a socially inclusive welfare state while maintaining their developmental credentials. This paper will first elaborate two strands of welfare developmentalism in order to capture the changing nature of the welfare state in East Asia. It will then explain why and how the welfare states in Korea and Taiwan underwent policy reform, drawing on a proposition derived from the concept of the developmental welfare state. In order to put the analysis in the East Asian context, this paper will, where appropriate, refer to the experiences of Singapore and Hong Kong, where the welfare state remain largely unchanged. Lastly, this paper will reflect policy implications of the East Asian experience in the wider context of economic and social development.

The success of the rapid economic development in these two countries was due largely to the developmental state, which played a strategic role in the process of industrialization (see Johnson, 1982; White, 1988; Woo-Cumings, 1999). However, it was not just economic policy but also social policy that was institutionalized so as to be able to play a part in the overall strategy for economic development. Hort and Kuhnle (2000:167-168) showed that East Asian countries introduced the first social security programmes at lower levels of socio-economic development than the European countries. This suggests that East Asian countries adopted the social welfare programmes as policy instruments for economic development. Goodman and White (1998: 17) highlighted the characteristics of the East Asian welfare states that were incorporated in the state developmental strategy: a development ideology that subordinated welfare to economic efficiency, discouraged dependence on the state, promoted private source of welfare, and diverted the financial resources of social insurance to investment in infrastructure.

1 This paper was originally prepared as part of the UNRISD project on 'Social Policy in a Development Context'. The author is grateful to Thandika Mkandawire, Shahra Razavi and Justin MacDermott for insightful discussions during the preparation of the paper and has also benefited from comments by Sarah Cook, Chua Beng Huat, Ito Peng, Joe Wong, Ilcheong Yi and M Ramesh at a Bangkok workshop in June 2003 and Evelyn Huber and John Myles at the Research Committee C 19 Conference in August 2003. A slightly revised version has been published in *Development and Change*, 36 (3). The usual caveats apply.

2 The welfare state refers here to the set of social policies and institutions that aim to protect citizens from social contingencies, poverty and illness, but it does not necessarily mean that the high level of well-being of citizens is achieved nor that all citizens have access to social benefits.

East Asia and two strands of welfare developmentalism

This preoccupation with economic development led to the welfare state being predominantly composed of social insurance programmes for industrial workers, in which people were required to pay contributions prior to entitlement to social benefits. As a result, only selected groups of people had access to social protection, while leaving the vulnerable section of the population outside the system. To avoid a demand for universal entitlement, the state did not provide funding for the welfare programmes, but enforced the rules, formal and informal, which regulated the payment of contributions for social benefits by companies and their employees. The social insurance programmes were operated by quasi-governmental agencies, working at arms-length from the government, but not, strictly speaking, a part of the government.

Because of the selectivity of the system, the East Asian welfare state had its inevitable downside. Since social policy programmes covered mainly industrial workers, the welfare states tended to reinforce socioeconomic inequalities. Kwon (1997) pointed out that the lion's share of redistribution through social policies went to high-income earners, reflecting the fact that wage earners in large-scale businesses and state sector employees were the first group of people covered by social policy programmes. The vulnerable people in society not only suffered because of their difficult situation but were also stigmatized by being excluded from the welfare state. The authoritarian government maintained a regressive welfare system and suppressed dissenting voices. These characteristics of the East Asian welfare state are well summarized by the notion of the developmental welfare state, where elite policy makers set economic growth as the fundamental goal, pursue a coherent strategy to achieve it, and use social policy as an instrument for attaining that goal (Gough, 2001).

Of course, the concept of the developmental welfare state³ is a theoretical construct, aimed at capturing its distinctive features. The welfare states in individual East Asian economies have evolved as their socio-economic structures have changed, for example, through the process of democratization and industrialization. National Health Insurance in Korea, for instance, was extended to cover the entire population in 1988-1989. In Taiwan's case, National Health Insurance was introduced in 1995 with a central management system. The democratization of politics played an important part in these changes, resulting in similar, but different health systems in Korea and Taiwan. Singapore developed a welfare state that was anchored in a Central Provident Fund, and Malaysia implemented its New Economic Policy, which aimed mainly to redistribute economic resources along ethnic lines while developing its own Employees Provident Fund. Hong Kong recently established a similar mandatory provident scheme, in addition to welfare programmes, predominantly based on the idea of public assistance by the state. These welfare states originated during British colonial rule and were influenced in subsequent periods by nation-building efforts. Given the fact that they took such different paths, however, the developmental aspect of these welfare states is as strong as in their counterparts in Northeast Asia.

The developmental welfare state was tested in terms of its effectiveness as a social protection system during the Asian economic crisis of 1997-1998, which exposed its weaknesses. For example, during the economic crisis in Korea, one of the hardest-hit countries, it was very clear that the welfare state could not cope with the sudden rise in unemployment, because it had been based on the assumption of full employment

3 In a similar vein, Holliday uses the term 'productivist welfare regimes' when he argues that the East Asian welfare regimes constitute a fourth welfare regime (Holliday 2000). This article uses the concept of the developmental welfare state partly because it allows us to examine the political, economic and social context of the welfare state in East Asia and partly because it enable us to draw on the rich literature of development studies that has elaborated the concept of the developmental state.

and therefore, minimal support for the unemployed. While the economy grew fast, the number of the unemployed was small, and those who were unemployed relied on their families or on their savings as a safety net. During the economic crisis, the welfare state that had focused on workers employed in the formal sectors did not help those who lost their jobs.

As in Taiwan and Singapore, the public assistance programmes, which were based on a very low level of means-tested criteria, were not available to them in times of need. In response to this situation, the Korean government launched a range of temporary public works projects and extended the Employment Insurance Programme. After the worst phase of the economic crisis had passed, a new public assistance programme, the Minimum Living Standard Guarantee, was introduced. This programme recognized entitlement to benefits as a social right and raised the level of benefits according to the relative concept of poverty, which is an important departure from the welfare rationale of the past. In Taiwan the Employment Insurance Programme, which functioned mainly as unemployment insurance, was first introduced in 1999 in response to the rise in the unemployment rate since the late 1990s. National Health Insurance, introduced in 1995, had already signalled a new direction for the welfare state development. It was a universal programme, covering the entire population, and the government contributed a part of the funding, not only for public employees but also for farmers and the self-employed.

Considering that the developmental welfare state is based on the idea of discouraging people from dependence on the state, while providing necessary benefits for those working in the productive sectors, these welfare reforms reflect important changes. How do we explain these changes? Are these changes in the developmental welfare state pointing in a new direction that will lead to a different path from that of the past? Kwon has raised the question whether the welfare state in East Asia is moving beyond welfare developmentalism (Kwon, 2002). Changes have taken place not only in social welfare programmes, but also in the politics of social policy. Highlighting changes in the politics of social policy in which different groups of social actors are actively engaged in social policy making, Wong uses the notion of 'mainstreaming social policy' in politics (Wong, 2004). However, Kwon and Wong remain cautious on whether the clear shift, using Titmuss' term, to the institutional welfare state has not taken place. A simple answer of 'no' to the question of the shift needs to be equally tentative, since there have been important changes in the developmental welfare state.

In contrast to Korea and Taiwan, the governments in Singapore and Hong Kong did not carry out major reforms in social policy. There has been no major reform in the Central Provident Fund in Singapore. Although the Mandatory Provident Fund was introduced in 2000, there was no big shake-up of the welfare state in Hong Kong. On the contrary, the Hong Kong government tried to check the expansion of the welfare state after the hand-over in 1997 (Pearson, 2003). The welfare state in Singapore and Hong Kong shows strong continuity. What are the underlying factors of these different responses among the East Asian countries?

To capture these changes and continuities, it is necessary to elaborate the concept of the developmental welfare state, especially its political, economic and social aspects. It is important to recognize that the developmental use of social policy is not particularly new, if one looks back to the history of the welfare state. The most notable example is Bismarck's social policy in the 1880s (Rimlinger, 1971), which sought to facilitate industrialization through social insurance programmes, and at the same time to undermine political support for the socialist movement in Prussia. Bismarckian social policy did not attach equal importance to the intrinsic goals of social policy such as human well-being, social justice and redistribution. Social policy

was only conceived as instrumental to economic and political objectives. In this respect, the welfare states in East Asia are clearly in line with the Bismarckian concept.

There has also been another strand in the developmental use of social policy. An early example of this type is the Scandinavian experiment with active labour market policy in the 1930s (Dahl, Dropping and Lodemel, 2001). While providing income maintenance, this policy was intended to provide the recipients with the necessary skills that would enable them to enter the labour market, to make their own living and subsequently to contribute to economic development. This strand of welfare developmentalism was further elaborated by the United Nations and its specialized agencies in the late 1960s and 1970s. For example, in 1966, the United Nations Economic and Social Council passed a resolution in which it emphasized the interrelated character of economic and social factors and the importance of incorporating social development into economic development in order to achieve a better standard of living.

This resolution was developed in more detail by a group of experts on social policy. The chairman of the group of experts was Gunnar Myrdal, who argued for a unified approach to social and economic planning in developing countries. The group criticized the tendency in economics to draw a distinct line between economic and social phenomena, separating social development from economic development (UNDESA, 1971: 4). It argued that social factors, such as excessive concentration of wealth and income, inequalities in educational opportunities and inegalitarian social and power structures, impede development and should be dealt with by social policy. In other words, economic development requires social policy.

The experts went on to propose four principles of social policy, which could be regarded as the core of the second strand of welfare developmentalism: (1) to leave no important section of the population outside the scope of change and development; (2) to make it a principal objective to activate a wider sector of the population and to ensure its participation in development; (3) to accept and aim at social equity as being morally important, as well as a significant element in increasing long-term economic efficiency; and (4) to give high priority to the development of human potential, especially that of children, by preventing malnutrition during their early years and by providing health services and equal opportunities (UNDESA, 1971: 11).

This UN initiative, however, failed to have a significant impact on policy making due to the worldwide economic recession in the 1970s. The ascendancy of neoliberalism in the 1980s also prevented this strand of welfare developmentalism from influencing development thinking. Yet, some scholars continued their research on ways in which economic development and social development could go hand-in-hand (see Midgley, 1982; Midgley, 1995), and some of the UN agencies such as United Nations Development Programme (1990) and the United Nations Research Institute for Social Development, (2000) have attempted to reinvigorate the idea of welfare developmentalism.

The key principles of the second strand of welfare developmentalism are productivism, universal social investment and democratic governance (which will be referred to as ‘inclusive welfare developmentalism’), while the Bismarckian strand has features of productivism, selective social investment and authoritarianism (referred to as ‘selective welfare developmentalism’). If the welfare states in East Asia fall under the selective type of the developmental welfare state, will the recent changes transform the welfare state in Korea and Taiwan into the inclusive type? What are the driving forces for such a transformation, if such transformations have really taken place? What are the institutional advantages and drawbacks that Korea and Taiwan have experienced in the process of change?

Before we try to answer these questions, it is necessary to make it clear what we mean by the developmental state, since the developmental welfare states, either selective or inclusive, are in fact discussed in the context of the developmental state with particular attention to social policy. We define a developmental state as a state that plays a strategic role in economic development with a bureaucracy that is given sufficient scope to take initiatives and operate effectively (Johnson, 1999). Here, economic development is given priority over other spheres of public policy, and the national economy as a whole has priority over the comparative advantage of particular industries. This is a minimalist definition, compared to the conventional one, which also carries with it a heavy load of economic, political and social implications.

Although the developmental state has shown an affinity with authoritarian politics, we do not assume that the developmental state is intrinsically opposed to democracy, just as the leading commentators have never denied the possibility of democratic politics within the developmental state (Johnson, 1999; White, 1998; White, 1988).⁴ We also do not assume that the welfare state within such a paradigm should be a selective one. However, our minimal definition suggests that the overarching economic goal defines the nature of the welfare state. Of course, this link is not automatic, but is intermediated by the politics of each country. The hypothesis arising from our conception of the developmental state is that once the overarching goal of economic policy is reset, other public policies including social policy will be readjusted in line with the new policy paradigm.

In the remaining part of this paper, we will argue that the shift in the overall goal of economic policy from extensive growth based on cheap labour to economic competitiveness based on high quality products, which was hastened by the Asian economic crisis, brought about new definitions of developmental social policy in Korea and Taiwan, and created enough room to accommodate political demands for greater social rights. This is an interesting contrast to Singapore and Hong Kong, where the paradigm of economic policy was not reset and the politics did not undergo major changes. This explains why these two welfare states remain essentially the same as before the economic crisis in these two countries.

Changes in economic structure and redefining developmental social policy

Based on their data analysis of the West European countries, Huber and Stephens (2001) argue that there is a clear link between the production regime and the welfare regime that a country may have developed. They also argue that countries with different production regimes tend to respond to economic challenges with different social policy reforms. Of course, the link is not automatic and it depends on the intermediate political process.

Such links have been equally evident in the developmental welfare state in East Asian countries since social policy has been used as an instrument for economic development strategies. In order to identify the developmental nature of social policy in Korea and Taiwan, it is necessary to examine the ways in which economic development was pursued. In this context, we will examine the question as to whether some social policy programmes, such as unemployment insurance, which had been regarded as hampering economic development, were now understood as developmental as economic restructuring took place.

⁴ White points out the socioeconomic conditions that are conducive to democracy in the developmental state: a higher level of socioeconomic development; a relatively homogenous population; a strong sense of national identity, a cohesive social structure; a society lacking in gross inequalities; a vibrant civil society; and a well-developed political party system (White 1998).

Even though the state played a strategic role in the economic development of all the East Asian countries examined in this paper, the role of the state in different countries was not exactly the same. In Korea and Taiwan, the state deliberately intervened in the economic decision making of firms to facilitate industrialization of the whole economy, rather than just certain sectors with comparative advantages. The economic development in both countries was set as an overarching goal of public policy. This was related partly to the nationalist zeal of the authoritarian leaders—Park Chung-Hee in Korea and Chiang Kai-shek in Taiwan—who first embarked on the economic development plan in the two countries. It is fair to say that not only these political leaders, but also bureaucrats and the public in general regarded economic development as an overarching imperative in order to put their countries on an equal footing with the West (Haggard, 1988).

More importantly, the authoritarian governments in both countries attempted to legitimise their rule by economic development. This is why Korea and Taiwan took the road to economic development through state intervention, instead of letting the market do the job. Amsden (1989) argued that the Korean state had intervened in the market mechanism and deliberately distorted market prices in order to compete internationally. This is not a unique experience in the history of economic development. What made the Korean case different was the discipline the state exercised over big business, known as *chaebol*.⁵ The Korean state imposed performance standards on private firms, and once these standards were met, the state provided various kinds of subsidy, for example low-interest capital, allowing businesses to enter new markets or consolidate their monopoly status.

The other side of the industrial policy in Korea during the period of rapid economic growth was the harsh suppression of trade unions and labour movements. Political suppression was not, however, the only measure used to ensure industrial stability and workers' loyalty. The Park government and the following authoritarian governments established a range of policies to enhance the welfare of industrial workers. This is why major social insurance programmes started with large-scale firms such as Industrial Accident Insurance, National Health Insurance and the National Pension Programme (Kwon, 1999). A cheap but well-trained labour force was an essential requisite for the export-oriented industrialization strategy. In this context, as Yi and Lee (2003) argue, vocational training and occupational welfare programmes for workers were promoted by the state, which private firms perceived as orders rather than guidelines from the state. These occupational welfare benefits were very often workplace-based and consequently non-transferable, so that workers' loyalty to firms was ensured.

The role of the state in Taiwan during the period of rapid economic growth is similar to that of Korea. Wade (1988: 54) explains that the aim of government intervention was not to encourage firms to maximise profitability based on current comparative advantage, but rather to control the composition of national investment so that Taiwan could establish a flexible and integrated production structure. What was different in Taiwan was that the share of the large conglomerates in the economy was smaller than in Korea and such conglomerates were concentrated in the state-controlled strategic industries, such as the China Petroleum Corporation. A large share of economic production was undertaken by small- and medium-sized enterprises. These firms were run by families: the head of the family was often the owner/manager and the other family members worked for wages (Hsiung, 1996).

Given the strong authoritarian state, the trade union movements were weak and not perceived by the state as a threat to the economic development plan. Labour Insurance, which was one of the first major social

5 A *chaebol* is a large capitalist organization, usually based on a single family having controlling interests in a variety of companies, similar to the Japanese *Zaibatsu*.

insurance programmes during the development period, was targeted mainly toward industrial workers in large-scale firms, and the state sector workers were among those first covered by health insurance programmes. Within these overall economic strategies, social protection for vulnerable people in society was left to families. Some social insurance programmes, such as unemployment insurance, were never on the agenda since they were perceived as discouraging the work ethic and encouraging dependency on the state. It is also important to note that women were doubly burdened in the export-oriented industrialization in both Korea and Taiwan, since they were the main providers of cheap labour for industry as well as of welfare for their families.

In Singapore and Hong Kong, social development was not a priority, and as in Taiwan and Korea it was subordinated to the overall economic development strategy. Nevertheless, their strategies were different from those pursued by Korea and Taiwan during the period of rapid economic growth. This resulted in a different structure of the welfare state. Singapore also set economic development as the overriding goal for society. Initial conditions soon after independence in 1954 were not favourable for Singapore to undertake industrialization projects because of her neighbours such as Indonesia and Malaysia, which were not altogether friendly to Singapore (Singapore was separated from the Malaysian federation in 1965), the multi-ethnic composition of the population, and the volatility of politics.

The economic strategy of the People's Action Party was to build a sound infrastructure, to ensure workforce compliance, provide generous tax incentives, and allow international capital to completely own their business operations (Chua, 2003). In contrast to the strategy of Korea and Taiwan to build a national economy with a vertical integration of industries, Singapore attempted to build an international platform for industrialization, and left international capital to carry out its own business instead of giving it guidelines and punishing it if it did not follow them as in Korea and Taiwan. The Central Provident Fund was central to this economic policy. Initially established by the British colonial government to provide lump-sum retirement pensions (Kwon, 1998), it was used as an effective way of capital mobilization. One of the important innovations which the Singapore government cleverly devised, was to link the Central Provident Fund to housing policy. Chua explains that the Central Provident Fund was a vital part of the capital formation of Singapore through its housing programmes. He also points out that improved housing conditions through the Central Provident Fund provided permanent shelter, improved sanitation and health conditions, and enhanced well-being, which then led to increasing labour productivity (Chua, 2003: 10).

It is, however, important to recognize that this seemingly virtuous circle was based on three very authoritarian policies: the Land Acquisition Act of 1966, the Industrial Relations Act of 1968 and the Internal Security Act of 1958. The Land Acquisition Act allowed the government to acquire any piece of land it deemed necessary, which was an effective nationalization of land; the Industrial Relations Act severely curtailed the trade union movements; and the Internal Security Act allowed the government to detain anyone it saw as opposing social stability for extendable two-year terms of detention.

Hong Kong pursued a very similar industrialization strategy to that of Singapore during the period of rapid economic growth, although the British colonial government had never explicitly declared that it had implemented an industrialization policy. In a way, it is fair to say that Hong Kong was the pioneer of industrialization strategy through the building of an international entrepôt for trade and finance with some export-oriented industries. What was different in Hong Kong was that it did not have a provident fund like Singapore. The provident funds in the British colonies were introduced as part of the decolonization process, which was why it was discussed under the last British Governor in Hong Kong, Chris Patten, towards the end of the British governance in Hong Kong. What was very similar in Hong Kong and Singapore was

that housing policy was central to social policy as an instrument of economic development. The Housing Authority of the colonial government built numerous rental and home ownership estates. Hong Kong also built comprehensive social assistance programmes which were introduced under the auspices of the governor David Wilson (Hong Kong Government, 1991). These programmes were financed by public revenues. In other words, the state was the main provider in financing welfare programmes, which was unique in East Asian welfare states.

Table 1.

Key indicators in four East Asian countries

		1996	1997	1998	1999	2000
Korea	GDP growth rate	6.7	5.0	-6.7	10.9	8.8
	Unemployment rate	2.0	2.6	6.8	6.3	4.1
Taiwan	GDP growth rate	6.1	6.7	4.6	5.4	5.9
	Unemployment rate	2.6	2.7	2.7	2.9	3.0
Singapore	GDP growth rate	7.6	8.5	0.1	5.9	9.8
	Unemployment rate	3.0	2.4	3.2	4.6	4.4
Hong Kong	GDP growth rate	11.6	10.5	-6.6	-2.9	
	Unemployment rate	2.8	2.2	4.7	6.3	5.0

Source: Asian Development Bank (2002)

Despite such differences in economic strategy, East Asian countries were very successful during the 1970s, 1980s and the first part of the 1990s. These developmental strategies were challenged to a great extent as these countries became exposed to global competition. This was manifested during the Asian economic crisis. As Table 1 suggests, the four countries were equally influenced by the economic crisis, and serious rethinking in economic policy took place in Korea and Taiwan, while Singapore and Hong Kong basically continued the strategy for the international entrepôt of trade and finance. Although it was inevitable that Singapore and Hong Kong would be affected by the international economic downturn, there seemed no other viable alternatives for them to the current economic strategy of remaining as a centre of international trade and finance, given the deepening of global economic integration.

It is true that there has been a critical re-examination of the existing economic paradigm in Singapore and Hong Kong. Both countries now emphasize the importance of building a high-tech and knowledge-based economy, but such new emphasis is still in line with the existing framework of economic development. Social policy responses to the economic crisis in Singapore and Hong Kong were also within the selective form of the developmental welfare state. During the economic crisis, the Singapore government lowered the employer's contributions to the Central Provident Fund from 20 to 10 per cent, as in 1986. Hong Kong introduced the Mandatory Provident Fund in 2000, but it was a pension fund just like the Central Provident Fund. In other words, there were no fundamental changes in the developmental welfare state.

In contrast, Korea and Taiwan suffered from the structural problems behind the headline indicators. In fact, they were already identified before the Asian economic crisis. As for Korea, its international competitiveness rapidly decreased during the 1990s. As Park (2001) shows, the average increase in wage was 14.3 per cent, while labour productivity increased by 10.4 per cent during the 1990s. As we pointed out, Korean firms provided various company welfare benefits to their workers in order to maintain their loyalty. Furthermore, the life-time employment and seniority-based remuneration system remained an implicit contract between employers and employees. Such company welfare benefits were arranged on the basis of low

wages and weak trade unions. However, once trade unions were allowed to mobilize workers and successfully increase the level of wages from the late 1980s, the existing formula of company welfare benefits could not be sustained.

Considering that Korea's economic growth was mainly based on cheap labour costs, the loss of international price competitiveness raised a fundamental question about the existing economic strategy and the developmental welfare state. This was also prompted by China and other East Asian developing countries encroaching on the traditional Korean market. The Korean government saw that the country would need to develop a high-technology based economy with a flexible labour market, and in 1990 launched the 'Seven-Year Development Plan for High-Tech Industry'. The aim of this plan was to bring high technology into the Korean economy and make it competitive (Ahn, 1998: 134). The Korean government also set in place institutional arrangements necessary for structural adjustment. The inevitable corollary of structural adjustment was to lay off workers and staff in sectors that were no longer competitive. In this context, the Employment Insurance Programme, which included job-training schemes as well as unemployment benefits, was introduced in 1995.

This led to a new definition of 'developmental social policy' in Korea and a significant change in social policy: providing benefits to those who are not working and training them outside companies. What remains essentially the same is the state's effort to utilize social policy as an instrument of economic policy. The other side of the coin was to reform the labour market so that employers could lay off their workers if necessary. This was harder to do because Korea had become democratic and the bureaucrats could no longer rely on the authoritarian power of the president in passing the controversial programmes through the National Assembly.

Taiwan also faced a problem of high labour costs. Before martial law was lifted, trade unions in Taiwan were controlled by the state. Once this oppressive law was lifted in 1987, trade union movements and the Taiwan Labour Front in particular, started to mobilize workers. They demanded political freedom and higher wages, and the number of strikes increased sharply (Chen, Ko and Lawler, 2003). The response from the government was to promote a capital- and skill-intensive industrial structure instead of a labour-intensive one. As in Korea, Taiwan made significant progress on this front, notably in the information technology (IT) industry.

The Taiwanese employers, however, responded to the rising cost of labour in other ways as well. They started to move their operations to mainland China. As Chen (2003) reports, Taiwanese investment in China increased sixteen times during the period from 1991 to 2001. It is true that capital mobility increases as global economic integration deepens. For the Taiwanese entrepreneurs, either in a labour- or capital intensive industry, China provided an excellent investment opportunity as a cheap labour supplier and an enormous market. This, in turn, led to an increase in unemployment in Taiwan.

The unemployment rate was low by international standards, but for the developmental welfare state, which was based on full employment without unemployment insurance, it posed a serious challenge. Further, it emerged that the unemployed were typically male workers from the manufacturing sectors, and that they tended to remain unemployed in the longer term. This suggests that the selective form of the developmental state could not serve the need of the Taiwanese economy. Since the Taiwanese economy escaped the domino effect of the financial crisis because of its huge foreign reserves, policy change was less dramatic than in Korea. This does not mean that changes in social policy were less significant in Taiwan, which also introduced unemployment insurance with a training programme package in 1999.

Democratic politics and inclusive social policy

It would be misleading to assume that the politics of the developmental welfare state would automatically produce public policy decisions required for economic development, particularly when it was undergoing democratization. The new understanding of ‘developmental’ social policy needed to find its meaning in practice through the political process. At the beginning, however, the Korean government attempted to adjust social policy according to the new set of economic goals without building broad political support. For example, in March 1997, the Kim Young-sam government passed a bill to revise the Labour Standard Law through the National Assembly behind locked doors without opposition members, which had been a typical tactic of the authoritarian government to pass the bills it wanted. It aimed to reform the labour market in order to make it easier for employers to lay off workers. The opposition party, then led by Kim Dae-jung, strongly opposed the bill, as did the public. The then governing party, at the last minute, halted the provision of lay-offs in the bill for two years in an effort to gain wider support. This raised serious doubts about the ability of the state to carry through its economic reform under democratic politics, which then sparked a chain reaction of financial crisis at the end of 1997.

The economic crisis produced a surprise winner in the presidential election at the end of 1997: the long-time opposition leader, Kim Dae-jung. It gave the Korean government another opportunity to carry out labour market reform. In February 1998 the President-elect Kim Dae-jung established a tripartite committee, the Employees-Employers-Government Committee, to forge a social consensus for reform. It is worth noting that the Korean Confederation of Trade Unions, which had been subject to harsh suppression by the government, participated in this committee as did the Korean Federation of Trade Unions. In other words, this committee was able to produce a broad-based social consensus for reform (Kwon, 2003a). The committee agreed to the labour market reform, but also recommended that the government implement a package of social protection measures for the unemployed, which was later called the ‘Master Plan for Tackling Unemployment’. The Master Plan included, *inter alia*, the swift extension of the Employment Insurance Programme, the implementation of public works projects, and the reinforcement of employment services (see Table 2). The training schemes within the Employment Insurance Programme were put into full operation. Yi and Lee argue that policy emphasis shifted from job security to job capability of workers, according to their recipient-centred analysis of the labour market policy (Yi and Lee, 2003).

Since, unlike Korea, Taiwan was not hit by the economic crisis, the policy response was less urgent, but built in a similar way on social consensus initiated by the new government. In 2000, the opposition candidate of the Democratic Progressive Party, Chen Shui-bian, was elected to the presidency. During the campaign, Chen unveiled his labour policies, which departed from the traditional KMT line: further autonomy for the trade union movements; re-examination of the privatisation policy of state-owned enterprises;

Table 2.

The extension of the unemployment benefits (benefit coverage¹)

	1997	1998	1999	2000	2001
Korea	7.8	26.34	33.1	33.3	44.7
Taiwan	n.a.	n.a.	13.9	35.9	107.9 ²

Source: Korea Statistical Yearbook and *Employment Insurance Review* (Korea); *Statistical Yearbook* of the Republic of China and Council of Labour Affairs (<http://dbsi.cla.tw/stat/>).

¹ Benefit coverage refers to proportion of people receiving unemployment benefits among the unemployed.

² Anomaly may have happened because the unemployment figure is year average and because there are cases in which people received benefits twice a year.

and labour-management conferences (Chen, Ko and Lawler, 2003). After the election, the DPP government convened the first 'National Economic Development and Consultation Conference' in 2001. The conference agreed to reform the three basic labour laws, which were under review at the time of writing this paper (Lin, 2003). After this conference in 2003, the Employment Insurance Programme integrated the existing, but fragmented unemployment benefit and training schemes in 2003 after this conference. In a nutshell, the unemployment insurance programme, which was the last programme the developmental welfare state would consider for introduction, became a centrepiece of the system in the newly defined 'developmental' welfare state in Korea and Taiwan.

Although a shift in economic strategy in Korea and Taiwan brought about the new understanding of 'developmental' social policy, it is not the whole story. Under the politics of democratization, there emerged advocacy coalitions who pressed their agenda for inclusive social policy. It is also important to note that these new advocacy coalitions did not suddenly take on social policy as the opportunities arose. For many years, there had existed advocacy coalitions that pursued the goal of an inclusive social policy and attempted to change the developmental welfare state in Korea and Taiwan. Their roles in social policy making have often been mentioned in passing in the existing literature of comparative social policy, since these actors often failed to achieve their policy outcomes under authoritarian politics.

At first, these advocacy coalitions did not have a very clear idea about inclusive social policy or a coherent political strategy to be able to pursue policy outcomes. I have explained that in Korea, the advocacy coalition for an inclusive health insurance system did not have a clear idea about social justice, and argued that they had to compromise their positions under the authoritarian politics from the early 1960s until the late 1980s (Kwon, 2003b). Their first serious attempt in 1988 to integrate the health care system, which would have included the self-employed and farmers under one national health insurance, failed because President Roh vetoed the integration bill initiated by the opposition party. As the advocacy coalition, which initially comprised policy experts, extended their network to the grassroots civil societies, bureaucrats and politicians, their ideas and political strategy also became coherent. In 1998, when the Kim Dae-jung government came to power, this group of people successfully seized key positions in the government and were able to integrate National Health Insurance in Korea in 2000. Nevertheless, integration reform was not a clear-cut victory for the advocacy coalition, since the financial integration was not completed, while the administration side of integration was. This was partly due to the antiquated tax system and strong objections from the opposition party in the National Assembly.

Another major breakthrough towards an inclusive social policy was also made by basically the same advocacy coalition: the reform of the public assistance programme. During the economic crisis, the existing public assistance programme based on a strict means-test idea did not help the poor. The advocacy coalition was able to introduce the Minimum Living Standard Guarantee, which recognized the right of every citizen to a decent living as a social right. It abolished the so-called family test to provide cash benefits to those who have non-poor family members and increased the level of benefits based on the concept of relative poverty (Kwon, 2003a). It is worth noting that the reform of the programme was also part of Kim Dae-jung's political strategy to win a majority in the National Assembly in the 2000 general election. The new public assistance programme also includes a range of workfare and training programmes as well as cash benefits. The catchword, 'productive welfare state', used by the Kim Dae-jung government for the general election (Presidential Office, 2000), summarized the nature of welfare reform after the economic crisis.

National Health Insurance was also an important part of democratization politics in Taiwan. Once *Tanwai* (meaning 'outside the party') was allowed as a political party as the Democratic Progress Party in 1986, the DPP fought elections (initially local elections) on a platform of democratization, Taiwanization and social welfare (Lu, 1992). In fact the DPP's social welfare manifestos turned out to be more effective than those of Taiwanization in local elections, as some DPP candidates were successful with policy for old-age allowances. It was also true that a majority of the Taiwanese wanted to avoid the issue of Taiwanization because of military warning from Beijing. In this context, the KMT, the then governing party, decided to introduce National Health Insurance in 1995, five years earlier than planned.

Before the introduction of the universal health insurance programme, only public sector employees, school teachers and employees in the large-scale firms were covered by the various social insurance programmes. Farmers had their own health insurance from 1989, but the majority of the population was not covered by any public health insurance. As the DPP began to address the issue, the KMT did not have a choice other than to introduce the National Health Insurance (Hwang, 1995), which covered the whole population, with the government providing funding for the self-employed, informal sector workers and farmers. It was an important departure from the selective form of the developmental welfare state in Taiwan. Nevertheless, the KMT government placed an important conditionality on the new National Health Insurance. The government was required to review the administrative and financing arrangement within five years after its introduction (Ku, 1998). In particular, a multiple carrier system would be considered against the current single carrier system.

The KMT government had already started to prepare the National Health Insurance reform as early as 1997. The Department of Health drew a policy draft for a health system of multiple insurance carriers. The proposal failed to go through the legislative process contrary to the KMT government's intention in 1999. It was partly due to the factional split of the KMT in the run-up to the Presidential election, but Wong (2004) points out that the citizens' advocacy coalition, the 'NHI coalition', was an active player in the efforts to resist reform. The coalition successfully argued that the multi-insurance carrier reform would bring NHI back to a selective and fragmented system.

While the democratic politics in Korea and Taiwan accommodated new 'developmental' social policies and initiated a universal healthcare system, politics in Singapore and Hong Kong were relatively stable. Whether Singapore's 'guided' democracy is democratic or not has been a controversial issue for some time. Nevertheless it is important to recognize that the Singapore government has enjoyed what Chua calls performance legitimacy from the population (Chua, 2003). Despite the hand-over of sovereignty to China, Hong Kong's politics remains absorbed by the administration. This seems to be the case with an exception of the period in which Chris Patten attempted to introduce quasi-democratization before the hand-over. Given the political stability, and since there has been no major shift in economic strategy in Singapore and Hong Kong, it was not necessary to the economic and social policy paradigm that proved to be successful in achieving what it aimed: a platform for a global city of trade and finance, as Ramesh (2003) explains. It is worth noting recent protest over the introduction of an anti-subversion law in Hong Kong that showed a growing pressure for democratization of politics in Hong Kong, but it is not very clear whether this will lead to a significant democratic reform. It is also worth noting that the overall size of the welfare state has grown in response to structural factors such as the ageing of the population in Hong Kong and Singapore.

Concluding remarks

This paper has argued that the recent reform of the developmental welfare state in Korea and Taiwan was mainly due to the shift in the overall goal of economic policy from extensive economic growth to economic competitiveness. The economic crisis in 1997-1998 made the reform of the structural weakness of the economy inevitable. This paper explained how the welfare state that had focused on those working in the large-scale firms now began to protect those not working, including the poor and the elderly as well as the unemployed, in line with the economic changes. Within the new social protection schemes, training programmes as well as unemployment benefits were predominant. In other words, the emphasis was placed on the protection of the job capability instead of the job security of workers.

The reform in economic and social policy had to be carried out through democratic politics. The newly elected governments in Korea and Taiwan were able to forge a social consensus through tripartite committees. Through the opportunities arising from the change of governments, the advocacy coalitions for inclusive social policy successfully achieved their social policy agenda instead of just accommodating economic changes. National Health Insurance, as well as public assistance programmes, in both countries was made more inclusive. In short, the change in the overall goal of economic policy, and a shift toward democratic politics resulted in making the developmental welfare state more inclusive in Korea and Taiwan.

What remains unchanged is that the social policy is developmental, while social inclusion is now considered an equally important social policy goal. In contrast, the developmental welfare states of Singapore and Hong Kong have remained largely unchanged in their underlying principle. This paper has argued that despite the adverse effects of the Asian economic crisis, Singapore and Hong Kong maintained the overall strategy of economic development through international trade and finance, a strategy that seems appropriate as global economic integration continues. In terms of politics, the administration still absorbs the politics, and there are no serious political challenges to the prevailing order.

The move toward an inclusive developmental welfare state does not mean that the welfare state has become as inclusive as in the Scandinavian countries. There is a whole range of areas of social policy that needs to be improved in terms of social inclusion. Despite the changes, the developmental welfare state is still gender biased. For example, in Korea, the National Pension Programme, the Employment Insurance Programme and Industrial Accident Insurance should include all workers whether they are regular or temporary. In practice, however, less than half the temporary workers are covered by these programmes while most regular workers are within the schemes. Considering that the number of temporary workers has increased and that they are more likely to be women, they are not equally protected by the programmes. In Taiwan, the government created a number of low-paid jobs for the wives of middle-aged men who had lost their jobs. Although the jobs may have compensated for a part of the lost family income, they were likely to double the women's burden: the women now had to work both outside and in the home.

In the areas of social services and social care, there has been little improvement compared to those of public assistance, pension, health care and unemployment. Caring for chronically ill people, the bedridden elderly and the disabled fell mostly to families, which in turn, meant the women. The absence of improvement in these areas of social policy showed that the welfare state in Korea and Taiwan still places stronger emphasis on development than on social inclusion. It is also clear that the improvement of social protection depends to a great extent on political mobilization as in the case of health care, which has been the centre of political debates in Korea and Taiwan.

In the wider context of economic and social development, the recent experiences of Korea and Taiwan counter the assertion that social protection should come as an after-thought of economic development. More socially inclusive welfare states helped these two countries to come out of the economic crisis without much adverse social effects such as a sharp rise of poverty or serious worsening of income inequality. It will be useful for the development debate if the idea of the developmental welfare state be explored in the context of other developing countries against the tendency that separates social protection from economic development.

In terms of policy implications, in addition to the inclusive welfare reform after the economic crisis, I would like to emphasize that Korea and Taiwan had developed social policy institutions in an incremental fashion for quite some time, which proved to be a basis for the inclusive reforms, and that those social forces which had had frustrating experiences persevered in pursuing their social agenda. Of course, not everything is rosy in Korea and Taiwan. For instance, levels of unemployment remain relatively high compared to those in the past, and the governments in Korea and Taiwan have struggled to finance the welfare states due to the expansion of the programmes. Nevertheless, considering that economic development has been set as a trade-off with social protection and democracy in the development context, the Korean and Taiwanese experiences show that it is possible to achieve democracy, economic development and social inclusion at the same time.

References

- Ahn, H. (1998). From the active labour market policy to income maintenance: An analysis of the Korean Employment Insurance Programme. *Yonsei Social Welfare Review* 5: 125-154 (in Korean).
- Amsden, A. (1989). *Asia's Next Giant: South Korea and Late Industrialization*. Oxford University Press, Oxford.
- Asian Development Bank (2002). *Key Indicators in 2001: Growth and Change in Asia and the Pacific*. Asian Development Bank, Manila.
- Beck, U. (2000). *What is Globalization?* Polity Press, Cambridge.
- Chen, F.-I. (2003). The reform of unemployment policies in Taiwan: Implications for gender and families. UNRISD workshop on 'Social Policy in a Development Context', United Nations Research Institute for Social Development, Bangkok.
- Chen, S.-H., Ko, J.-J., and J. Lawler (2003). Changing patterns of industrial relations in Taiwan. *Industrial Relations* 42: 315-340.
- Chua, B.H. (2003). Welfare developmentalism in Singapore and Malaysia. In H. J. Kwon (ed.). UNRISD Workshop on Social Policy in a Development Context. United Nations Research Institute for Social Development, Bangkok.
- Dahl, E., J.A. Dropping, and I. Lodemel (2001). Norway: Relevance of the social development model for post-war welfare policy. *International Journal of Social Welfare* 10: 300-308.
- Goodman, R., and G. White (1998). Welfare orientalism and the search for an East Asian welfare model. In R. Goodman, G. White and H.J. Kwon (eds). *The East Asian Welfare Model: Welfare Orientalism and the State*. Routledge, London.
- Gough, I. (2001). Globalization and regional welfare regimes: The East Asian case. *Global Social Policy* 1: 163-189.
- Haggard, S. (1988). The politics of industrialization in East Asia and Taiwan. In H. Hughes (ed.). *Achieving Industrialization in East Asia*. Cambridge University Press, Cambridge.
- Holliday, I. (2000). Productivist welfare capitalism: Social policy in East Asia. *Political Studies* 48: 706-723.
- Hong Kong Government (1991). *Social Welfare into the 1990s and Beyond*. Hong Kong Government, Hong Kong.
- Hort, S., and S. Kuhnle (2000). The coming of East and South-East Asian welfare states. *Journal of European Social Policy* 10: 162-184.
- Hsiung, Y.T. (1996). Blood thicker than water: Interpersonal relations and Taiwanese investment in southern China. *Environment and Planning* 28: 2241-2261.
- Huber, E., and J. Stephens (2001). Welfare state and production regimes in the era of retrenchment. In P. Pierson (ed.). *The New Politics of the Welfare State* Oxford University Press, Oxford: 107-145.
- Hwang, Y.S. (1995). Funding health care in Britain and Taiwan. Unpublished Ph.D. dissertation, University of Newcastle.

- Johnson, Chalmers (1982). *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford University Press, Stanford.
- Johnson, Chalmers (1999). The developmental state: Odyssey of a concept. In Meredith Woo-Cumings (ed.). *The Developmental State*. Cornell University Press, Ithaca.
- Korea, Republic of (various years). *Korea Statistical Yearbook*. Statistics Office, Seoul.
- Ku, Y.-W. (1998). Can we afford it? The development of national health insurance in Taiwan. In R. Goodman, G. White and H.J. Kwon (eds). *The East Asian Welfare Model: Welfare Orientalism and the State*. Routledge, London. Kwon, H.J. (1997). Beyond European welfare regimes: Comparative perspectives on East Asian welfare systems. *Journal of Social Policy* 26: 467-484.
- Kwon, H.J. (1998). Democracy and the politics of social welfare: A comparative analysis of welfare systems in East Asia. In R. Goodman, G. White and H.-J. Kwon (eds), *East Asian Welfare Model: Welfare Orientalism and the State* Routledge, London: 27-74.
- Kwon, H.J. (1999). *The Welfare State in Korea: The Politics of Legitimation*. Macmillan, London.
- Kwon, H.J. (2002). Welfare reform and future challenges in the Republic of Korea: Beyond the developmental welfare state? *International Social Security Review* 55: 23-38.
- Kwon, H.J. (2003a). Advocacy coalitions and the politics of welfare in Korea after the economic crisis. *Policy & Politics* 31: 69-83.
- Kwon, H.J. (2003b). The reform of the developmental welfare state in Korea: Advocacy coalitions and health politics. UNRISD Workshop on 'Social Policy in a Development Context', United Nations Research Institute for Social Development, Bangkok.
- Lin, C.-H. (2003). Amendment of the 'Three Labour Laws': Reconsidering the Executive Yuan's 2002/05/01 Version. Council of Labour Affairs, Republic of China.
- Lu, A.Y.-L. (1992). Political opposition in Taiwan: The development of the Democratic Progressive Party. In T.-J. Cheng and S. Haggard (eds). *Political Changes in Taiwan*. Lynne Rienner, London.
- Midgley, J. (1982). *The Social Dimension of Development: Social Policy and Planning in the Third World*. John Wiley.
- Midgley, J. (1995). *Social Development: The Developmental Perspective in Social Welfare*. Sage, London.
- Ohmae, K. (1995). *The End of the Nation-State: The Rise of Regional Economies*. HarperCollins, London.
- Park, B.-G. (2001). Labor regulation and economic change: A view on the Korean economic crisis. *Geoforum* 32: 61-75.
- Pearson, V. (2003). Welfare accountability and citizenship in Hong Kong: Two colonial masters. United Nations Research Institute for Social Development (UNRISD) workshop on 'Social Policy in a Development Context', Bangkok.
- Pierson, C. (1998). *Beyond the Welfare State: the New Political Economy of Welfare*. Polity Press, Cambridge.
- Presidential Office (2000). *DJ Welfareism: A New Paradigm for Productive Welfare in Korea*. Presidential Office, Seoul.
- Ramesh, M. (2003). One and a half cheers for provident funds in Malaysia and Singapore. United Nations Research Institute for Social Development (UNRISD) workshop on 'Social Policy in a Development Context', Bangkok.
- Rimlinger, G. (1971). *Welfare Policy and Industrialization in Europe, America, and Russia*. John Wiley & Sons, New York.
- China, Republic of China (various years). *Statistical Yearbook of the Republic of China*. Statistical Office, Taipei
- UNDESA (1971). Unified socio-economic development and planning: Some new horizons. United Nations, New York.
- UNDP (1990). *Human Development Report: Concept and Measurement of Human Development*. United Nations Development Programme, New York.
- UNRISD (2000). *Visible Hands: Taking Responsibility for Social Development*. United Nations Research Institute for Social Development, Geneva.
- Wade, Robert (1988). State intervention in 'outward-looking' development: Neoclassical theory and Taiwanese practice. In G. White (ed.). *Developmental State in East Asia*. St. Martin's, New York.
- White, Gordon (1988). *Developmental States in East Asia*. St Martin's, New York.
- White, Gordon (1998). Constructing a democratic developmental state. In M. Robinson and G. White (eds). *The Democratic Developmental State: Politics and Institutional Design*. Oxford University Press, Oxford.
- Wong, J. (2004). Re-thinking development in Taiwan: Democracy and social policy. United Nations Research Institute for Social Development (UNRISD) workshop on 'Social Policy in a Development Context', Bangkok.
- Woo-Cumings, Meredith (1999). *The Developmental State*. Cornell University Press, Ithaca.
- Yi, I., and B.-H. Lee (2003). Changing developmental characteristics in the Korean labour market policies, United Nations Research Institute for Social Development (UNRISD) workshop on 'Social Policy in a Development Context', Bangkok.