

# Transforming the Developmental Welfare State in East Asia

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# Contents

<b>Acronyms</b>	<b>ii</b>
<b>Acknowledgements</b>	<b>ii</b>
<b>Summary/Résumé/Resumen</b>	<b>iii</b>
Summary	iii
Résumé	iii
Resumen	iv
<b>East Asia and the Developmental Welfare State</b>	<b>1</b>
Two strands of welfare developmentalism	3
The developmental state and policy change	4
<b>Changes in Economic Structure and Redefinition of Developmental Social Policy</b>	<b>5</b>
<b>Democratic Politics and Inclusive Social Policy</b>	<b>9</b>
<b>Concluding Remarks</b>	<b>12</b>
<b>Bibliography</b>	<b>14</b>
UNRISD Programme Papers on <b>Social Policy and Development</b>	<b>17</b>
<b>Tables</b>	
Table 1: Key indicators in four East Asian countries ( <i>per cent</i> )	8
Table 2: The extension of unemployment benefit coverage ( <i>per cent</i> )	10

## Acronyms

<b>DPP</b>	Democratic Progressive Party (Taiwan Province of China)
<b>GDP</b>	gross development product
<b>IT</b>	information technology
<b>KMT</b>	Kuomintang (Nationalist Party, Taiwan Province of China)
<b>UNDP</b>	United Nations Development Programme
<b>UNRISD</b>	United Nations Research Institute for Social Development

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## **Summary/Résumé/Resumen**

### ***Summary***

This paper seeks to explain changes and continuity in the developmental welfare states in the Republic of Korea (Korea) and Taiwan Province of China (Taiwan) within the East Asian context.

The paper first elaborates two strands of welfare developmentalism (selective versus inclusive) and establishes that both Korea and Taiwan fell into the selective category of developmental welfare states before the Asian economic crisis of 1997–1998. The key principles of the selective strand of welfare developmentalism are productivism, selective social investment and authoritarianism; inclusive welfare development is based on productivism, universal social investment and democratic governance.

The paper then argues that policy reform toward an inclusive welfare state in Korea and Taiwan was triggered by the need for structural reform in the economy. The need for economic reform, together with democratization, created institutional space in policy making for advocacy coalitions, which made successful advances toward greater social rights. Finally, the paper argues that the experiences of Korea and Taiwan counter the neoliberal assertion that the role of social policy is minor in economic development, and emphasizes that the idea of an inclusive developmental welfare state should be explored in the wider context of economic and social development.

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### ***Résumé***

Ce document cherche à expliquer la continuité et les changements qui se sont produits dans les Etats providence développementaux de la République de Corée (Corée) et de la province chinoise de Taiwan (Taiwan) dans le contexte de l'Asie orientale.

L'auteur commence par distinguer parmi les Etats providence développementaux deux courants (le sélectif et l'universalistes) et par démontrer que la Corée et Taiwan se rangeaient dans la première catégorie avant la crise économique qui a ébranlé l'Asie en 1997–1998. Les principes essentiels du développementalisme sélectif sont le productivisme, des investissements sociaux sélectifs et l'autoritarisme; le développementalisme universaliste repose sur le productivisme, des investissements sociaux à caractère universel et une gouvernance démocratique.

L'auteur fait ensuite valoir que c'est le besoin de réformer les structures de l'économie qui a déclenché les réformes politiques tendant à faire de la Corée et de Taiwan des Etats providence universalistes. Avec le besoin de réformes économiques et la démocratisation, des coalitions qui faisaient un travail de sensibilisation ont pu se faire une place parmi les institutions soucieuses des politiques à définir et ont permis de marquer des points dans la conquête de nouveaux droits sociaux. Enfin, il explique que l'expérience de la Corée et de Taiwan contredit l'affirmation néolibérale selon laquelle la politique sociale joue un rôle mineur dans le développement économique et il souligne qu'il faudrait creuser l'idée d'un Etat providence développemental universaliste dans le contexte général du développement économique et social.

Après avoir été coordonnateur de recherches à l'UNRISD de février 2002 à février 2005, Huck-ju Kwon est maintenant professeur associé au Département de l'administration publique de l'Université Sung Kyun Kwan en République de Corée.

### **Resumen**

El estudio intenta explicar los cambios y la continuidad en el estado de bienestar desarrollista en la República de Corea (Corea) y Taiwán, Provincia de China (Taiwán) dentro del contexto de Asia Oriental.

Empieza explicando dos tipos de estado de bienestar desarrollista (el selectivo frente al inclusivo), y pone tanto a Corea como a Taiwán en la categoría de estados de bienestar desarrollistas selectivos antes de la crisis económica de Asia de 1997-1998. Los principios claves del tipo selectivo de estado de bienestar son el productivismo, la inversión social selectiva y un gobierno autoritario; el estado de bienestar inclusivo se basa en el productivismo, la inversión social universal y el gobierno democrático.

El documento sostiene que la reforma política hacia un estado de bienestar inclusivo en Corea y Taiwán empezó por la necesidad de reforma estructural de la economía. La necesidad de reforma económica, junto con la democratización, creó un espacio institucional en formulación de políticas para las coaliciones de promoción, que lograron notables avances hacia mayores derechos sociales. Finalmente, el estudio concluye diciendo que las experiencias de Corea y Taiwán van en contra del dogma del neoliberalismo que dice que la función de la política social en el desarrollo económico es menor, y hace hincapié en la idea de un estado de bienestar desarrollista inclusivo que ha de ser examinado en el contexto más amplio del desarrollo social y económico.

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## East Asia and the Developmental Welfare State

This paper attempts to explain changes and continuity in the developmental welfare states in the Republic of Korea (Korea) and Taiwan Province of China (Taiwan) within the East Asian context. The welfare states<sup>1</sup> in these two countries have undergone significant changes since the Asian economic crisis of 1997–1998. These changes seem to go against the neoliberal argument that market-driven globalization renders the welfare state of marginal importance in economic life (see, for example, Beck 2000; Ohmae 1995). There have been counter arguments to this assertion, based on the European experience (for instance, 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. The 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 place the analysis within the East Asian context, the experiences of Singapore and Hong Kong Special Administrative Region, China (Hong Kong), where the welfare state remain largely unchanged, will be referred to where appropriate. Lastly, the paper will reflect on policy implications of the East Asian experience in the wider context of economic and social development.

The successful and rapid economic development in Korea and Taiwan was due largely to the developmental state (see below for further discussion on this), which played a strategic role in the process of industrialization.<sup>2</sup> However, it was not only 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) show that East Asian countries introduced social security programmes at lower levels of socioeconomic development than the European countries had done. This suggests that East Asian countries adopted social welfare programmes as policy instruments for economic development. Goodman and White (1998:17) highlight 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.

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 being entitled to social benefits. As a result, only selected groups of people had access to social protection, leaving a large and 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,

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<sup>1</sup> 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 level of well-being of citizens is achieved, nor that all citizens have access to social benefits.

<sup>2</sup> Wade 1990; White 1988; Woo-Cumings 1999.

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) points 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 embodied in the notion of the developmental welfare state, in which 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). In other words, the developmental welfare state comprises a set of social policies and institutions that are predominantly structured for facilitating economic development.

Of course, the concept of the developmental welfare state<sup>3</sup> is a theoretical construct, aimed at capturing its distinctive features. The welfare states in individual East Asian countries have evolved as their socioeconomic 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, 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 at redistributing 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 and strategy for economic development, as we will discuss below.

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 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

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