

Transforming the Developmental Welfare State in East Asia

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Social Policy and Development
Programme Paper Number 22
September 2005

United Nations
Research Institute
for Social Development



This United Nations Research Institute for Social Development (UNRISD) Programme Paper has been produced with the support of the Swedish International Development Cooperation Agency (Sida), the United Kingdom's Department for International Development (DFID) and the Ford Foundation. UNRISD also thanks the governments of Denmark, Finland, Mexico, Norway, Sweden, Switzerland and the United Kingdom for their core funding.

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Acronyms

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

Acknowledgements

This paper is part of the United Nations Research Institute for Social Development (UNRISD) project on Social Policy in a Development Context. I am grateful to Thandika Mkandawire for insightful discussions during the preparation of the paper and have benefited from comments from Sarah Cook, Chua Beng Huat, Ito Peng, Joe Wong, M. Ramesh, Manuel Riesco and Evelyn Huber on various occasions. I also appreciate the referees' detailed comments on the earlier version of the paper. The usual caveats apply.

This paper first appeared in *Development and Change*, Vol. 36, No. 3 (pp. 477–497). It is reprinted with permission of the Institute of Social Studies, The Hague.

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.

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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 states¹ 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.² 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,

¹ 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.

² 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 state³ 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 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—an important departure from the welfare rationale of the past that sanctioned social policies aimed at economic development, not those aimed at reducing poverty per se. For example, the Minimum Living Standard Guarantee now provides income support to the elderly

³ Holliday uses the term "productivist welfare regimes" when he argues that the East Asian welfare regimes constitute a fourth welfare regime (Holliday 2000). This paper 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 enables us to draw on the rich literature of development studies that has elaborated the concept of the developmental state.

whose income falls below the poverty line, even if they have working-age children. Whereas, in the past, children were supposed to work and support their parents, access to minimum income is now recognized as a social right, regardless of family situations.

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 in the late 1990s. National Health Insurance, introduced in 1995, had already signalled a new direction for 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? Do they point in a new direction that will lead to a different path from that of the past? Elsewhere I have raised the question of 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 such 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 2003). However, Kwon and Wong remain cautious on whether a clear shift to an institutional welfare state, in which the full protection of social rights for every citizen is pursued, has taken place.

In contrast to Korea and Taiwan, the governments in Singapore and Hong Kong did not carry out major reforms in social policy. The Central Provident Fund in Singapore remains unchanged, and in Hong Kong, although the Mandatory Provident Fund was introduced in 2000, there was no big shake-up of the welfare state. Indeed, the Hong Kong government tried to check the expansion of the welfare state after the handover to China in 1997 (Pearson 2003). The welfare states in Singapore and Hong Kong show strong continuity before and after the economic crisis. What are the underlying factors for these different responses among the East Asian countries?

Two strands of welfare developmentalism

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, if one looks back to the history of the welfare state, the developmental use of social policy is not particularly new. The most notable example is Otto von Bismarck's⁴ 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 et al. 2001). While maintaining income, this policy was intended to provide the recipients with the necessary skills 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 that 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

⁴ Bismarck was chancellor of Germany from 1871 to 1890.

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 inequalitarian social and power structures, impede development and should be dealt with by social policy. In other words, economic development requires social policy.

These 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, for example, Midgley 1982, 1995), and some UN agencies such as the United Nations Development Programme (UNDP 1990) and the United Nations Research Institute for Social Development (UNRISD 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 developmental welfare state, will the recent changes transform the welfare states in Korea and Taiwan into the inclusive type? What are the driving forces for such a transformation, if indeed such transformations have really taken place? What are the institutional advantages and drawbacks that Korea and Taiwan have experienced in the process of change?

The developmental state and policy change

Before we try to answer these questions, it is necessary to clarify 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. In this paper, I 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, I 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).⁵ I also do not assume that the welfare state within such a paradigm should be a selective one. However, this minimal definition suggests that the overarching economic goal defines the nature of the welfare state. 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, I 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 productivity, 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 the welfare states in these two countries remain essentially the same as before the economic crisis.

Changes in Economic Structure and Redefinition of 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. Nevertheless, 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.

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 a priority 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 legitimize 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 has argued that the Korean state intervened in the market mechanism and deliberately distorted market prices in order to compete internationally (Amsden 1989). 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*. The Korean state imposed performance standards on private firms, and once these standards were met, the state provided various kinds of subsidy, such as low-interest capital, allowing businesses to enter new markets

⁵ White points out the socioeconomic conditions that are conducive to democracy in the developmental state: a higher level of socioeconomic development; a relatively homogeneous 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 1998:45–46).

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 authoritarian governments that followed established a range of policies to enhance the welfare of industrial workers. This is why major social insurance programmes such as Industrial Accident Insurance, National Health Insurance and the National Pension Programme started with large-scale firms (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 in a way which private firms perceived as orders rather than guidelines. 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 explains that the aim of government intervention was not to encourage firms to maximize profitability based on current comparative advantage (Wade 1988), but rather to control the composition of national investment so that Taiwan could establish a flexible and integrated production structure (Wade 1988:54). 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 carried out the functions of health insurance and retirement plan, was one of the first major social insurance programmes during the development period. It was targeted mainly at industrial workers in large-scale firms, while state sector workers were among those first covered by the 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, the strategies they pursued were different from those of Korea and Taiwan during the period of rapid economic growth, resulting in a different structure of the welfare state. In Singapore, initial conditions soon after independence in 1954 were not favourable for undertaking industrialization projects because of the strained relations with neighbours such as Indonesia and Malaysia (Singapore joined the Malay Federation in 1963 and separated in 1965), the multiethnic 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 key 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. The Central Provident Fund is a mandatory individual retirement saving system to which employees and employers contribute a certain proportion of their wages. It provides the Singapore government with a large amount of long-term capital available for its economic plan. The Central Provident Fund is, however, very selective in the sense that it only covers those employed, and there is no redistribution mechanism between the rich and poor within the system. An important innovation, 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, which allowed the government to acquire any piece of land it deemed necessary, effectively a form of nationalization of land; the Industrial Relations Act of 1968, which severely curtailed trade union movements; and the Internal Security Act of 1958, which 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. Unlike Singapore, Hong Kong did not have a provident fund. The provident funds in the British colonies were introduced as part of the decolonization process; this was therefore discussed only toward the end of the British governance in Hong Kong, under the last governor, Chris Patten. 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 governor David Wilson (Government of Hong Kong 1991). These programmes were financed by public revenues, not by contributory social insurance funds. In other words, the state was the main provider in financing welfare programmes, which was unique among the East Asian welfare states.

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 their strategies as centres of international trade and finance. Although it was inevitable that Singapore and Hong Kong would be affected by the international economic downturn, there seemed no viable alternatives for them, given the deepening of global economic integration. Although there has been a critical re-examination of the existing economic paradigm in Singapore and Hong Kong, with both countries now emphasizing the importance of building a high-tech and knowledge-based economy, this 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 also fell 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.

Table 1: Key indicators in four East Asian countries (*per cent*)

		1996	1997	1998	1999	2000
Korea	GDP ^a growth rate	6.7	5.0	-6.7	10.9	9.3
	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	-0.9	6.4	9.4
	Unemployment rate	3.0	2.4	3.2	4.6	4.4
Hong Kong	GDP growth rate	11.6	8.8	-5.0	3.4	10.2
	Unemployment rate	2.8	2.2	4.7	6.3	5.0

^a Gross domestic product. **Source:** Asian Development Bank 2003.

In contrast, Korea and Taiwan suffered from structural problems behind the headline indicators. In fact, these problems had already been identified before the Asian economic crisis. Korea's international competitiveness rapidly decreased during the 1990s. As Park (2001) shows, the average increase in wages was 14.3 per cent while labour productivity increased by only 10.4 per cent during the 1990s. Korean firms provided various company welfare benefits to their workers in order to maintain their loyalty, while lifetime employment and seniority-based remuneration systems 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 increased 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 based on high-tech 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 were not working and providing them with training outside companies. What remained essentially the same was 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 controversial programmes through the National Assembly.

Taiwan also faced a problem of high labour costs. During martial law, 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 et al. 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 operations to mainland China. Chen (2003) reports that Taiwanese investment in China increased sixteen-fold during the period 1991–2001. Capital mobility increases as global economic integration deepens: for Taiwanese entrepreneurs in both labour- and capital-intensive industries, 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 rate was low by international standards, but for a developmental welfare state which was based on full employment without unemployment insurance, it posed a serious challenge. Moreover, the majority of the unemployed were male workers from the manufacturing sectors, and they tended to remain unemployed in the longer term. This suggests that the selective form of the developmental welfare state could not serve the needs of the Taiwanese economy. The Taiwanese economy escaped the domino effect of the financial crisis because of its huge foreign reserves; policy change was therefore less dramatic than in Korea. However, this does not mean that changes in social policy were not 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 first, 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 pushed a bill to revise the Labour Standard Law through the National Assembly, behind locked doors and without opposition members, which had been a typical tactic used by the authoritarian government. The bill 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. At the last minute, the governing party 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, President-elect Kim Dae-jung established the tripartite 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). 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 Taiwan was not hit by the economic crisis, its 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 (DPP), Chen Shui-bian, was elected to the presidency. During the campaign, Chen unveiled his labour policies, which departed from the

traditional Kuomintang (KMT) line: greater autonomy for the trade union movements; a re-examination of the privatization policy of state-owned enterprises; and labour-management conferences (Chen et al. 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 are under review at the time of writing this paper (Lin 2003). In 2003, the existing but fragmented unemployment benefit and training schemes were integrated in the Employment Insurance Programme. Although such a programme would previously have been out of the question because of its possible disincentive effects, the Employment Insurance Programme became a centrepiece in the newly defined developmental welfare state in Korea and Taiwan.

Table 2: The extension of unemployment benefit coverage^a (per cent)

	1997	1998	1999	2000
Korea	7.8	26.3	33.1	33.3
Taiwan	—	—	13.9	35.9

^a Benefit coverage refers to the proportion of people receiving unemployment benefits among the unemployed. **Source:** Government of the Republic of Korea 2002a, 2002b; Council of Labour Affairs 2002.

Although a shift in economic strategy in Korea and Taiwan brought about the new understanding of developmental social policy, this is not the whole story. Under the politics of democratization, advocacy coalitions emerged which pressed their agenda for inclusive social policy. These coalitions did not suddenly take on social policy because the opportunity arose: such advocacy groups had existed for years, pursuing the goal of an inclusive social policy and attempting to change the developmental welfare state in Korea and Taiwan. Their role in social policy making tends to get no more than a passing mention in the literature of comparative social policy, however, since they generally 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. Elsewhere I have demonstrated this in relation to the advocacy coalition for an inclusive health insurance system, and argued that the coalition had to compromise its position in the context of authoritarian politics from the early 1960s until the late 1980s (Kwon 2003b). The 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 Rho Tae Woo vetoed the integration bill initiated by the opposition party. As the advocacy coalition, which initially comprised policy experts, extended its network to include grassroots civil societies, bureaucrats and politicians, its ideas and political strategy also became more coherent. In 1994, the Citizens' Coalition for the Integration of National Health Insurance emerged with a strong network of supporters and a coherent policy agenda. In 1998, when the Kim Dae-jung government came to power, this group successfully seized key positions in the government and were able to achieve the integration of National Health Insurance in Korea in 2000. The integration reform did not represent a clear-cut victory for the advocacy coalition, for although the administration aspects of integration were completed, the financial side was not. This was partly due to the antiquated tax system and to strong objections from the opposition party in the National Assembly.

Another major breakthrough toward an inclusive social policy—the reform of the public assistance programme—was achieved by basically the same advocacy coalition. During the economic crisis, the public assistance programme was based on a strict means-test idea that 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). The new public assistance programme also includes a range of workfare and training elements as well as cash benefits. 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 catchphrase, "productive welfare state", used by the Kim Dae-jung government for the general election (Office of the President of the Republic of Korea 2000), summarized the nature of welfare reform after the economic crisis.

National Health Insurance was also an important part of democratization politics in Taiwan. The *Tangwai* (meaning "outside the party") movement was recognized and allowed to operate as a political party—the DPP—in 1986. From then on, 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 manifesto turned out to be more effective than that of Taiwanization in local elections, as some DPP candidates were successful with policy for old-age allowances. In this context, the governing party of the time, the KMT, 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 raise the profile of the issue, the KMT had little choice but 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 condition on the new National Health Insurance: the government was required to review the administrative and financing arrangements within five years of its introduction (Ku 1998). In particular, a multiple carrier system, in which a number of public health insurers compete with each other for clients, would be considered as an alternative to the current system of the single national health insurance agency.

The KMT government had already started to prepare the National Health Insurance reform as early as 1997, with the Department of Health drawing up a draft policy for a health system of multiple insurance carriers. Contrary to the KMT's intentions, however, the proposal failed to get through the legislative process in 1999. This was partly due to a factional split of the KMT in the run-up to the presidential election, but Wong (2003) points out that the citizens' advocacy coalition, known as the NHI coalition, was also an active player in the efforts to resist reform. The coalition successfully argued that the multi-insurance carrier reform would bring the National Health Insurance 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 (2003) calls "performance legitimacy" from the population.

Despite the handover of sovereignty to China, Hong Kong's politics remained in the hands of the administration. The one exception to this was a brief period in which Chris Patten, the last governor of Hong Kong, attempted to introduce quasi-democratization before the handover. Given the relative political stability and the absence of any major shifts in economic strategy in Singapore and Hong Kong, there was no reason for them to shift from the economic and social policy paradigm that had allowed them to successfully locate themselves as platforms for global trade and finance (Ramesh 2003). It is worth noting the recent protests over the introduction of an anti-subversion law in Hong Kong, which suggests a growing pressure for democratization of politics in Hong Kong. It is not yet 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 reforms of the developmental welfare state in Korea and Taiwan were triggered by a shift in the overall goal of economic policy from extensive economic growth to economic competitiveness. The economic crisis in 1997–1998 made some reform of the structural weakness of the economy inevitable. The welfare state, which had focused only 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. Within the new social protection schemes, training programmes as well as unemployment benefits were major elements: in other words, the emphasis was placed on the protection of the job capability rather than 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, advocacy coalitions for inclusive social policy were also able to achieve their social policy agenda instead of just accommodating economic changes. National health insurance schemes and public assistance programmes in both countries were made more inclusive. In short, the change in the overall goal of economic policy, and a shift toward democratic politics, has made the developmental welfare state more inclusive in both Korea and Taiwan. What remains unchanged is that social policy is set and used for economic development, even though social inclusion is now considered an important social policy goal.

In contrast, the developmental welfare states of Singapore and Hong Kong have remained largely unchanged in their underlying principles. Despite the adverse effects of the Asian economic crisis, Singapore and Hong Kong maintained their overall strategy of economic development through international trade and finance, a strategy that seems appropriate as global economic integration continues. Politics is still seen as the realm of the administration, 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, for example, the Scandinavian countries: there is a whole range of areas of social policy that still 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, while most regular workers are within the schemes, less than half of temporary workers are covered by these programmes. Given that the number of temporary workers has increased and that the majority of them are women, this inequality of protection is significant. In Taiwan, the government created a number of low-paid positions for the wives of middle-aged men who had lost their jobs. Although these jobs may have compensated for part of the lost family income, they represented an increase in women's burden, with the women now having 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, pensions, health care and unemployment. Caring for chronically ill people, the bedridden, elderly and disabled falls mostly to families, which in turn usually means the women. The absence of improvement in these areas of social policy shows 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 represents an after-thought to economic development. Other, more socially inclusive welfare states helped these two countries to come out of the economic crisis without suffering too many adverse social effects, such as a sharp rise of poverty or serious worsening of income inequality. It would be useful for the development debate if the idea of the developmental welfare state could now be explored in the context of other developing countries in the context of the tendency that separates social protection from

economic development. In terms of policy implications, it is important to emphasize—in addition to the inclusive welfare reforms that followed the economic crisis—that Korea and Taiwan had both been developing social policy institutions in an incremental fashion for some time prior to the crisis, which acted as a basis for the inclusive reforms, and that a number of social forces and advocacy coalitions persevered in pursuing their social agendas, in spite of earlier frustrations. Of course, not everything is rosy in Korea and Taiwan. Levels of unemployment remain relatively high, compared to the past, and the two governments have struggled to finance the welfare states since 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.

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