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**Globalization and the Political Economy of Social Policy
Reform in East-Asian Welfare Capitalism: Taiwan’s Social
Policy Regime in Transition**

by Jen-Der Lue

Department of Social Welfare
National Chung-Chen University, Taiwan
San-shin Village 160, Chia-I 621, Taiwan, R.O.C.

Tel: (Off) 886-5-2428304
Fax: 886-5-2720810
e-mail: jlue@sw.ccu.edu.tw

Abstract

In the discussion about the governance capacity of small states in the world market raised by Katzenstein, the case of East-Asia new industrial countries is an interesting one. This paper takes the development of social policy in Taiwan as a case to explore the role of social policy in the process of rapid industrialization. It will be argued that in the initial phase of industrialization the productive component of social policy has been highlighted by the developmental state to serve the goal of economic development. This social policy functioned at this stage as an effective instrument to dampen labor cost and has thus contributed to the low-cost strategy of developmental state. Since the 1980s, however, the social policy has been profoundly transformed as a consequence of economic globalization on the one hand and domestic democratization on the other.

The new global division of labor between the center (the advanced industrial countries) and the peripheral (the ASEAN and China) has posited the NICs in a dilemma. In the context of Taiwan, it has resulted directly in the capital outflow to China and indirectly in the rapid rising of unemployment rate since 1999. It demands an economic structural transformation to cope with the challenge. Even with that, however, the low-skilled labor will nevertheless remain a disadvantaged group during the reconstruction.

Along with the economic development and globalization has been a process of political democratization since the mid-80s. As democratization has meant the political relevance of popular demands, which may or may not tally with the requirements of the strategy of economic development, social policy has been used by the state as an effective lever for balancing between the two. The implementation of the NHI in 1995 and the planning of a universal pension program are best understood in this light. In other words, it is observed that social policy making since the 90s in Taiwan has shifted the emphasis from the productive to the consumptive component. Finally, this paper suggests that three factors will be decisive in determining the making of Taiwan's social policy in the future: the limited governmental revenues, the fiscal strain due to the debt problem, and the steering capacity of the state that is in the hand of a minority government.

Keywords: Productive Social Policy, Taiwan, Globalization, Welfare Capitalism,