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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**

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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,

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1. Introduction

It is generally stated that the globalization could exert negative effects upon the welfare state because the state has to dampen the standards of the labor and social protections to reduce the labor costs and hence to enhance the competitiveness of the economy. In that way the state can attract the foreign capitals to invest. Through this regime competition between the nation states, there produces a 'competition to the bottom' game.

On the other hand, some scholars argue that there does not exist a necessary relation between the globalization and the retrenchment of the social welfare. Given the highly degree of globalization, its effects on the welfare system depend upon the constitution of the social and political institution. It has to be 'transmitted' through a complex mechanism. It is argued that the political and social institutions function like a filter which could minimize or maximize the effect of globalization to the welfare system.

Among the scholars who hold this viewpoints are e.g. Katzenstein (1985), Rodrik (1997). They regard there exist a positive relation between the openness of a economy and the expansion of the public economy, the governmental revenues and particularly the expansion of the social welfare systems. Katzenstein focuses his work especially on the European small states: Austria, Switzerland, Swiss, Belgium, Netherlands, Denmark and Norway. These states share the same characteristics that they are 'small states' in the sense that the economic scale of them is not so optimal large to sustain a prosperous economic development. To have a optimal economic scale, the small states are therefore quite depend on the world market. They are dependent on the import of raw materials or processed products from the others economies; on the other hand, they rely on the broad world market as the consumer of their products. Instead of protectionism but free trade is to their profit. From the perspective of the international comparison, it is therefore not surprising that the trade openness (the percentage of the import and export in the GDP) of the small state exceeds that of the big states. A free world market is living room for the small states. However, the dependence upon the world market also means they are exposed to a highly fluctuated and complex environment which is beyond the control of the small states. The economic cycling of the world market makes them more vulnerable than the big states. Facing a highly changing and uncertain environment the small states have to develop some mechanics to copy with the complex situations. Katzenstein found that there exist some similarities among these states. They have developed the democratic corporatist institutional arrangement to build the consensus and enhance the problem-solving capacity more effectively, given the problem of the minority

government in some nations (e.g. Denmark). The democratic corporatism has also been developed as the other important institutional arrangement to coordinate and intermediate the interests between the organized social powers – the work unions and the capital. Through such an institutional arrangement, the small states can mobilize the necessary resources and build the consensus effectively to enhance the problem-solving capacity of the governance. As Katzenstein has indicated, the strong political conflict is too costly for the small states. The small states, which are exposed to the changing and vulnerable conditions of the world economy, have very limited resources to get the consensus. Through the integration of the oppositional party or the organized labor in the policy making process, the political stability and the formation of the societal consensus will be ensured and enhanced.

More interesting is the high percentage of the governmental revenues in the GNP and the institutionalized social security program. Katzenstein indicate that this phenomenon is not unusual because these small states are highly exposed to the highly open and fluctuated environment. As Cameron has formulated that “the association between high spending and Social Democratic dominance in government – characteristic of the Scandinavian countries but not of the Netherlands – appears mainly to stem from the fact that both are the product of the same set of structural factors.” (Cameron, 1978).

To cushion against the risks out of their control, they are forced to set up the institutionalized safety net to minimize the negative effect upon their vulnerable people. Actually this finding of the political scientist has also been further developed by the economist who assert that external risk really count (Rodrik, 1997: 55-64).

What do these theoretical considerations mean to the East Asian countries, especially the four tigers which have been the fastest growing economies in the past three decades, moving up from the ‘Third World’ ranking to the category of the so called newly industrialized countries (NICs)? Through the so called export-oriented industrialization strategies these rising economies have been integrated into the world capitalist system successfully, so that some liberal economists have taken the NICs as successful cases to refute the thesis of the dependence theory (Bhagwati, 1999: 230). Like their European small states counterparts, the limited domestic market is not sufficient to support the economic development. Logically their products are directed toward the world market, especially the U.S. as the biggest market of the world. The percentage of the trade openness of the NICs is so high that they even exceed that of the European small states. Interestingly, the NICs does not develop a corresponding institutionalized welfare system like their European small states counterparts. The percentage of the social spending in the GNP or in the public budget still lies far behind. Most of the welfare programs are still quite residual to fulfill the basic needs

of the needy populations. Though the government has enlarged the input of the social spending, the institutionalization of the social welfare in East Asia has still been laggard. Is the NICs an exceptional case to Katzenstein's thesis, or do we indeed need a revision of the small state model? In this paper I will deal with this problematic. Due to my limited understanding to the other East Asian countries, I will focus on the case of Taiwan.

This paper aims to indicate how a small state like Taiwan has adapted itself to the changing conditions of the highly integrated and dynamic world economy through the social policy reform. In this paper I will focus upon the impact of the economic globalization to Taiwan's welfare system. I will indicate, as a late industrialized and semi-sovereign country, the internationalization is the only alternative and strategy for Taiwan to survive. To accomplish the goal of internationalization, it needs a strong state to mobilize the resources and guarantee the social stability to attract the foreign investment. Taiwan, like its East-Asian counterparts, had taken the form of authoritarian regime to fulfill the need. By the process of democratization, it seems that it is necessary for Taiwan to search for a new form of coordination mechanism as a functional equivalent which can offer a reasonable and stable environment for the internationalization strategy.

By 'regime' I understand as 'a complex of legal and organizational features are systematically interwoven' (Esping-Anderson, 1990: 2). In this paper, I would like to show the possible linkages and interdependence between the social policy and the other economic institutional arrangements: labor market, financial and production subsystems.

This paper will be divided into four parts. Firstly, a comprehensive introduction of the welfare system in Taiwan will be indicated. The taiwanese welfare system since 1950, like Japan and Korea, has been characteristic of its residual nature, in which the family has played an important role for the protection against the risks. A comparison of Taiwan's welfare with the other three tiger countries (Hong Kong, Singapore and Korea) will be made. Secondly, I will discuss briefly the integration process of Taiwan into the world market since 1960. Thirdly, it will be showed how the welfare system responds to the external pressures of globalization since 1987. Furthermore I will discuss the impact of the Asian financial crisis to the social protection system in Taiwan. Finally, I will indicate the role of the political institution and interestmediation institution in the social policy reform since 1990 in Taiwan. I argue that the two institutions are not proper to cushion against the economic globalization, because the institutional design can't produce a cooperative game and just leads to the confrontation between the social forces.

2. Internationalization as the developmental strategy of small state: The economic performance of Taiwan

As small states the internationalization has been the developmental strategy for them to survive in the world market. By way of export-oriented industrialization the NICs have transformed its economy successfully from agriculture- to industrial based and further to post-industrial economy. Though taking different path of internationalization, the NICs have the same character that the social policy is subordinate to the goal of export-oriented economic policy. Like the other Asian tigers, Taiwan has made a rapid economic progress through the so-called development strategy of export-oriented industrialization since 1970s, which has taken a quite different path with the Latin America during the same time. The economic performance of Taiwan has been impressive for students of political economy and the sociology of development. To analyze the impact of globalization to the formation of social policy regime in Taiwan, it's necessary to put the social policy in its economic setting. I will make a brief introduction to the economic development of Taiwan since 1960, particularly from the perspective of political economy.

2.1 The Economic Development of Taiwan: A historical Sketch

The Japanese Colonialization Heritage

To understand the economic development of Taiwan, it is necessary to trace the heritage of Japanese colonialization and its impact on Taiwan's linkage with the world economy. Taiwan had been colonialized by Japan for fifty years (1895-1945). To enlarge the influence of Japan in South-East Asia, Taiwan was constructed as a strategic base to meet military demands. Many important infrastructures were finished and the first industrialization were initiated by the foreign invader in Taiwan. This colonialization resulted in an unintended consequence: industrial production exceeded agricultural production in 1939 for the first time. The impact of the colonisation in Taiwan is the establishment of an effective administrative apparatus which could mobilize the resources necessary to initiate the first stage of the industrial development. It paved the way for the developmental state necessary for the initial phrase of rapid industrialization.

The Export-Oriented Industrialization: First Phase (1958-1975)

After a successful land reform launched by the KMT (Amsden, 1985), the

government planned to develop the light industry (shoes, clothes, garments) since 1958. Taiwan, like her counterpart among the Asian tigers, combined export-oriented and import-substitution strategies to promote economic development under the influence of national security concerns in the context of the Cold War. Taiwan has benefited enormously from the liberalization of the international economy during the 1970, which was pushed by the U.S. in the East Asia Region to prevent the spread of the Communism in this region. On the other hand, this change of the international economic environment had also been accompanied by the “recycling’ of Japan’s low-value and labor-intensive industries in the other low-wage and disciplined labor countries through the direct foreign investment” (Katzenstein/Shirashi, 1997: 369). Taiwan had seized this opportunity to initiate her export-oriented industrialization strategy in the first stage of the development and fit in the world market.

As many studies have indicated, industrialization in Taiwan (and also South-Korea) was marked by both massive exports of manufactures and by growing imports of intermediate goods and machinery. Due to the cheap material and energy before 1972, Taiwan made available of this advantage to initiate its export-oriented strategy. This model of economic development, together with South-Korea, is quite different than that of Japan as a forerunner and leading figure in the East-Asian. As Inoue points out, Japan had to develop an import-substitution strategy before the war because the industrial production had virtually been monopolized by the advanced economies. By contrast, the NICs were given a good opportunity structure to initiate their EOI strategy because of the new labor division between South and North in the end of the 1960s, wherein the Latin America had missed and taken a quite different path. In this period the NICs had been integrated into the world market and became the ‘workshop’ of the advanced economies (Inoue, 2001).

Taiwan has benefited from the internationalization strategy since the end of 1960. This stage could be thought as the ‘golden age’ of Taiwan’s development after the war. The rapid economic growth accompanied by the full employment has brought a huge increase in disposable income per household. Some scholars have even argued that the development of Taiwan is a model of growth with equity (Fei et al, 1979).

The Phase of economic adjustment: (1976-1991)

Although growth continued, Taiwan’s traditional industries began to reach a turning point as these industries faced intense pressure to move into high-value-added industries since the late 1970s. Labor-intensive industries such as garments, toys, and shoes began to flee to low-wage havens like China and Southeast Asia. In addition, the abysmal pollution record of traditional industries (cement, petrochemicals) was

also under attack. As a result, large traditional industrial groups such as steel, petrochemicals, cement and paper manufactures were forced to look for a way to diversify their product. Actually, the traditional industries could no longer compete in manufacturing low technology goods because domestic wage rate rose, land became more expensive, and environmental controls became stiffer.

On the other hand, the trade dependence on the U.S. market has resulted in the loss of the control of the rule and uncertainty of the future. For example, the U.S.A., the most important trade partner of Taiwan, had pushed Taiwan to accelerate the pace of economic liberalization since 1984. The average nominal tariff rate was greatly reduced from more than 30% in 1984 to 11,6% in 1988. Overall, rapid technological change, high labor costs, the pressure of liberalization and currency fluctuation are the chief reasons to a re-shaping of the industrial structure in Taiwan over the last decade. Among them the liberalization of currency fluctuation due to the Plaza Accord in 1985 is the most important factor shaping the reorganization of regional economy in East-Asia .

To enhance the competitiveness of industries, the state in Taiwan was determined to change its industrial policy from labor-intensive to technical- and capital intensive industry. The state issued a Six-Year Plan (1976-1981) which emphasized value-added components of products (Haggard, 1990: 142). The performance of the industrial reconstruction had been quite fruitful. The high technology-intensive products as a proportion of the total export products has increased from 18,3% in 1982 to 42,1% in 1999, while labor intensive products had decreased from 47,2% to 35,4% (Taiwan Statistical Data Book, 2000). In terms of growth rate, the high-tech. industry had also increased by 131% from 1986 to 1993¹. Taiwan has been the world leader (ranks three) of the knowledge based 'New Economy' until 1998: semiconductor, PC computers, digital cameras and scanners.

Evaluated by some indicators, the economic performance of Taiwan is quite impressive. The economic growth rates ranged from average 9,14% of the 1960s, to 10,24% in 1970s, 8,14% in 1980s and 6,14% in 1990s (Wang, 2001: 7). In 2000 the export is about 3.06 times higher than 1986 and the import is 4.76 times higher than 1986. Taiwan's amount of the trade ranks between 13 to 15 in the world trade (Ministry of Finance, 2001). The trade openness² in Taiwan is about 80%. In comparison with the U.S.A., Germany and the UK, Taiwan shares a great percentage of the trade openness. Taiwan has enjoyed a high current account balance since 1980. In 1996, for example, the trade surplus was US \$ 13 billion. Taiwan's reserve of gold and foreign exchange in the world ranks between two or three and is only second to

¹ Here I have quoted from Wang, 2001: 16.

² The trade openness is defined as the percentage of the import and the export in the GDP.

Japan as the largest holder³. The average growth rate in GDP ranged from 14,35% (1960s), 20%(1970s), 13,3% (1980s) to 8,54% in the 1990s. Until 1999, the GDP per capita is \$ 13,267. Between 1985 and 1996 the disposable income per household has risen significantly from N.T. \$320,495 to N.T. \$ 826,378 in 2000. It is 2,6 times more than 1985. Actually, as many liberal economists and the proponent of globalization have showed, Taiwan has profited from the integration to the world market.

Table 1 : The main economic indicator of Taiwan, U.S.A, Germany, and the U.K. (in \$ Million)

Year		1994	1995	1996	1997	1998	1999
Taiwan	GDP	2482	2691	2836	2933	2692	2905
	EXPORT	930.5	1116.6	1159.4	1220.8	1105.8	1215.9
	IMPORT	853.5	1035.5	1023.7	1144.2	1046.7	1106.9
	TRADE OPENESS	0.7188	0.7997	0.7698	0.8063	0.7996	0.7996
	UNEMPOLEYMENT	1.6	1.8	2.6	2.7	2.7	2.9
America	GDP	70711	74209	78312	83254	87867	92882
	EXPORT	5126.3	5847.4	6250.8	6891.8	6821.4	6958
	IMPORT	6232.6	7435.4	7952.9	8697	9119	10246.2
	TRADE OPENESS	0.1663	0.1790	0.1814	0.1872	0.1814	0.1852
	UNEMPOLEYMENT	6.1	5.6	5.4	4.9	4.5	4.2
Germany	GDP	20460	24549	23726	21041	21404	20955
	EXPORT	4280.8	5230.1	5241.6	5123.1	5436.2	5434.1
	IMPORT	3838.6	4634.7	4588	4453.5	4713.3	4738.3
	TRADE OPENESS	0.3968	0.4018	0.4143	0.4551	0.4742	0.4854
	UNEMPOLEYMENT	8.5	8.2	8.9	9.9	9.4	8.8
U.K.	GDP	10354	11270	11807	13190	14108	14428
	EXPORT	2070.4	2446.2	2648.2	2835.2	2747.4	2714.3
	IMPORT	2295.6	2677.3	2907.2	3097.5	3180.9	3229.2
	TRADE OPENESS	0.4217	0.4546	0.4705	0.4498	0.4202	0.4119
	UNEMPOLEYMENT	9.6	8.7	8.2	7	6.3	6.1

Taiwan was used to be dependent on the direct foreign investment after the War. The situation has changed since 1988. The drastic appreciation of Taiwan Dollar due

³ As Chu argues, "Taiwan has not been a member of the IMF or the World Bank since 1978 and could not count on an international rescue package during a currency crisis or on bilateral emergency loans from its security partner. With dwindling diplomatic recognition, official foreign reserves have become a benchmark measure of Taiwan's self-confidence." (Chu, 1999: 91)

to the Plaza Accord resulted in the overseas investment wave from 1988-1991, particularly in South-East Asia and China. Between 1989 and 2000 the inflow of the foreign direct investment has increased 3.37 times. By contrast, the outflow of the domestic investment has increased 5.45 times. Whereas the ratio of overseas investment/ GDP ranked 0.5%-1.0% between 1980-1991, it had risen to the rank of 2.01%-2.5% between 1990-1991. From the perspective of international comparison, Taiwan is higher than the UK (1.5%-2.0%) and Germany (0.5%-1.0%) (CEPD, 1993).

Table 2 : The Foreign Direct Investment and Oversees Investment in Taiwan (1981-2000) (in Million of U.S. dollars)

	Oversees Investment(OI)	Foreign Investment (FDI)	Direct FDI-OI
1981	60	151	-91
	32	104	-72
	19	149	-130
	72	199	-127
1985	79	342	-263
	65	326	-261
	705	715	-10
	4121	961	3160
1990	6951	1604	5347
	5243	1330	3913
	2055	1271	784
	1967	879	1088
	2611	917	1694
1995	2640	1375	1265
	2983	1559	1424
	3843	1864	1979
	5243	2248	2995
	3836	222	3614
2000	4420	2926	1494
	6701	4928	1773

Resource : Central Bank (of China), 2001

2.2 The Governance Structure of Taiwan's Economy: An Analytical Framework

The production regime

There are two key actors behind the successful story of Taiwan's economy. The first is the specific structure of Taiwan's firms. Taiwan is famous for its big population of small- and medium- sized enterprises (SMEs). With a population of just over 23 million populations, Taiwan has nearly one million registered firms which comprised 97,76% of all firms and employed 78,21% of all the labor force. They have been regarded as the driving force of Taiwan's economic miracle. In comparison to the state-led and large private corporations, they are the nod of Taiwan's economy to the world market. The SME in Taiwan are famous for their flexible operation. Taiwan was dominated by a labor process and production form mediated through private-led networks of small- and medium-sized firms that are engaged in reproduction of cheap labor and goods. There exists an intensive networking between the down-, middle and upstream enterprises.

For example, as Sum indicated, the firms in the East Asia has developed a strategy of the so called 'flexible taylorist' (flexi-timed and flexi-waged) labor process, which we should not confuse with the 'flexible specialization' (Piore/Sabel, 1984). This model means the taylorized fragmentation of tasks does not take the form of an extensive division of labor within one plant but of a fragmented division of labor across many production sites (flexi-spaced), often small or miniscule in size. It is also believed that the weak mobilization of the labor movement is due to the fragmented structure of the SME in Taiwan.

The Taiwanese economy was hit less severely by the Asia financial crisis because most of its enterprises are small- and medium, whose financial resource dependent less upon the foreign direct investments., Furthermore, the financial and stock markets were also less developed. On the other hand, the South-Korean economy is specific with its Multinational firms (chebols) and depend largely upon the foreign investment and loans financially, especially from the Japanese banks. It means that South-Korea is much more vulnerable to the Taiwanese economy, because its financial international openness is and the size of the enterprise is much larger than that of Taiwan. These structural difference help to explain, why the Korea economy could be more vulnerable than Taiwan facing the abrupt outflow of the foreign investment. This difference between Taiwan and South-Korea is quite similar to that between Austria and Belgian/Dutch. As Hermerijck et al. (2000: 251) has showed in a comparative study about the responding strategies of the three European small states–

Austria, the Netherlands, and Belgium, the Austria is less exposed to the internalization than the other two countries. It makes Austria less vulnerable to the severe economic recession and even crisis, e.g. the oil shock in 1973.

The political regime

The second actor is the strong state apparatus, which Taiwan (together with Korea) had partly inherited from the colonial government. Taiwan had an authoritarian One-Party system until Mid-1980 and dominated by the Kuomintang (KMT), which was transferred from main China. It has been famous for the model of developmental state, which indicates the decisive role of the state apparatus in the process of rapid industrialization. The state plays an important role to mobilize the necessary resources and coordinate the action of the societal actors to adapt itself to the conditions of the world market. It acts as a strong and unitary actor through authoritarian means to pursue its policy goals even they could harm the (potential) interests of the societal actors and sacrifice the other goals, e.g. the protection of the environment, social equality and regional development. Katzenstein indicates, the consensus-building and effective decision-making is quite important for the small states, because they have less time to respond to the highly unstable world market than the big states. The political and social stability among the government/opposition parties and societal organized interests is a public good for all of the members. The small states, so Katzenstein, develop consociational democracy and particularly democratic corporatism to enhance the problem-solving capacities of the polity. Facing the same problem of consensus-building and unitary action, the most East-Asia countries had taken the form of authoritarianism regime and it seems it operated effectively in this stage (Inoue, 2001: 7-9).

The state enjoyed relative autonomy to take unilateral actions to pursue the goal of the rapid economic development. The state also controlled the trade unions through the state-corporatistic institutional arrangement. The protest and the political organization were prohibited under the martial law in the name of preventing the spread of communism. The wage was regulated publicly to serve the goal of low labor cost strategy. These measures altogether were regarded as favorable conditions to attract the foreign investment: the supply of cheap and disciplined workers with appropriate skills. Located in the periphery of the world system, the fertile, cheap and disciplined labor force was the competitive edge of the East-Asian countries in this stage.

To supply such a labor forces, the authoritarianism regime did not only surpress them by force. On the other hand, some welfare programs were also offered to win the

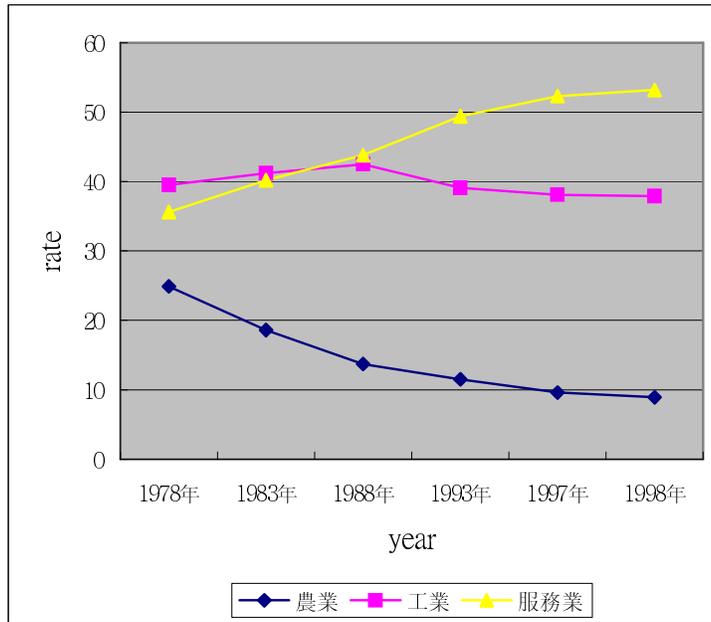
political support of the people on the one hand and to keep the subsistence of works in an affordable level, on the other hand. In this way, the labor cost were largely reduced and it contributed to the low-wage policy favoring the export-oriented strategy. The public housing programs in Hong Kong, Singapore and food subsidiary policy in Taiwan during 1970s are two prominent examples for this strategy. In the end, the state could legitimate its developmental policy and depressive action by the continuing rising improvement of the life standard and the wealth in the nearly future. The state knew it well, under the context of Cold War, it is not enough to legitimize state's action by the ground of nation security. In the long run, the ground of legitimation has to be based on the performance of economy and thus the reduction of poverty in the long run. In sum, through its control of wages and welfare the state had achieved the goal of stabilizing working-class subsistence and exert control over trade unions to pacify the potential political revolt and conflict from the society.

It is worth mentioning that the autonomy of the state could help to cushion against the negative effect of internationalization. For example, with its rich and developed agriculture sector established by the Japanese colonial government, Taiwan could enjoyed highly economic stability since the initial industrialization phase. Koo indicates that the 'timing' of Taiwan and South-Korea's integration to the world system was fit for the state autonomy (1987: 167ff). The reason is that before the intrusion of the foreign investments the state had seized the control over the economy and could therefore minimize the negative consequences of the integration to the world market.

The labor regime

The employment structure has changed drastically in the past fifty years which signifies the process of economic change of Taiwan. The employment rate in the first sector (agriculture sector) had reduced from 45.0% to 9,65 in 1997. On the other hand, the employment rate in the industrial and particularly the service sector has leaped from 22,6% and 32,4% to 38,2% and 52,3% respectively during a quite short period of time. It is worthy mentioning that the industrial sector had become a leading employment sector from 1970 to 1980. But it had stagnated since 1987 and the service sector has replaced the industrial sector as the main sector absorbing the labor force. Indeed, the composition of the tertiary sector in GDP has increased to 64,3% in 1990s. In this sense, it seems that Taiwan has entered into the so called 'post-industrial society' since 1990. This change of the economic and social structure implies that the development of the welfare system in Taiwan is quite different than that of the European path.

Fig. 1 The Change of Employment Structure in Taiwan (1978-1998)



Taiwan had achieved the goal of full employment during the process of economic development since 1960s. The unemployment rate could be kept down below 3%, which has been regarded as a reasonable combination between the rapid economic development and the employment structure. Figure1 indicates the developmental tendency of the unemployment rate in Taiwan since 1966.

Table 3: The Organizational Density of Unions in Taiwan

Year	The Number of Unions	The Numbers of trade union workers	Organizational Density
1990	3524	2,756,620	43,34%
1992	3657	3,058,414	48,06%
1994	3706	3,277,833	48,86%
1996	3700	3,048,270	44,60%
1998	3732	2,921,400	41,09%
2000	3785	2,870,929	39,54%

Resource: Ministry of Labor, 2000

Table 3 shows, compared to other East-Asia countries in 1995, such as South-Korea (12,7%), Singapore (17,1%) and Japan (23,8%), the organizational rate

of trade union in Taiwan ranks quite high (Ministry for Labor Affairs, 1997). But actually these unions don't represent the interest of labors and exert the influence to negotiate with the employers powerfully. The reason of the weak unions lies on the one hand in the fragmented structure inside the unions. The unions are divided into occupational and industrial labor unions. On the other hand, the industrial relation in Taiwan is characteristic by industrial peace due to a strong entrepreneurial spirit embedded in the culture. As Wang indicates, most of the enterprises tend to exert paternalist power upon the unorganized workers to deal with issues of labor protection and enterprise welfare.

Since the legislation of the Labor Basic Standard Act (LBSA) in 1984, the minimum wage has been guaranteed. The introduction of the LBSA is not only for the control of the labor force but also a practical design to pacify the critics of 'social dumping' from the American labor unions, since Taiwan needed the access to the American market to carry out her export-oriented industrialization⁴. Actually, the huge reserves of the insurance fund have been facilitated as cheap loans for the enterprises to stimulate investments. In the latest debate about the competitiveness of Taiwan's economy, many measures protecting the labor are accused of factors eroding the competitiveness of firms. These measures include the minimum wage, the flexibilization of working time and the pension reform.

By the rising of labor wage the government has introduced the immigrant works since 1989. Most of the immigrant works belong to the low-skilled labor and come from South-East Asia, e.g. Philippine, Indonesia and Thailand. Until now Taiwan has introduced 330,000 immigrant works. The employer organizations welcome this policy and demand to enlarge the quota of employment. They argue that the employment of immigrant works is necessary for enhancing their competitiveness in the world market. On the other hand, labor unions owe the rising unemployment rate to the employment of foreign workforce and demand the government to restrict or even cut the quota. The executive is anxious that the immigrant works would make the problem of unemployment much worse. Actually, it is still unclear to what extent the employment of immigrant works is related to the rising unemployment rate since 1999. Some researches have showed, however, the employment of immigrant works has to some degree resulted in the mass unemployment of low-skilled labors, which were used to be occupied by the indigenous people in Taiwan. The political debate about the employment of immigrant works reveals the dilemma for the labor unions

⁴ Actually Taiwan is the only county to sign the 'minimum wage contract' which has raised her wage cost in comparison with her Asian counterparts. The government has already taken its abolition into consideration, particularly when Taiwan's enterprises rely on the immigrant workers from Southeast Asia countries like Thailand, Philippine and Indonesian. It is argued that through the abolition of the contract the competitiveness of the Taiwanese enterprises will be enhanced.

between regime competition and labor competition in the era of globalization, as Streeck observes (Streeck, 1998)

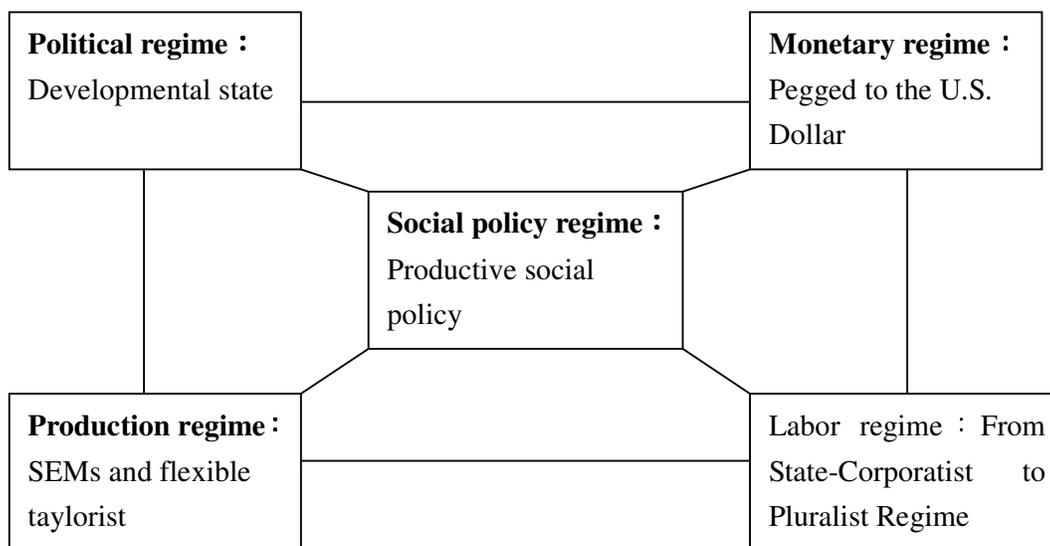
The monetary regime

The monetary form in East Asia is usually run by the credit-based banking system that is either state-owned or private-run banks that are strictly overseen by the state for the purpose of economic development. While the monetary policy in Europe after the War had been targeting on aggregate demands and full employment under the Keynesianism, the central banks's major function in Taiwan is to promote savings through high interest rate policy in order that the banks can mobilize and transfer these savings for rapid industrialization. Because of its failure in the Mainland-China, which resulted in the failure of KMT in confrontation with the Communists, the Central Bank in Taiwan has set the control of inflation and the maintenance of the price stability as its policy priority. The anti-inflationary and pro-stability fiscal policy, in fact, high interest rates policy, boosted capital accumulation and growth.

All East Asian economies have their own national currencies but most of those were pegged to the US dollar. To benefit the export performance, Taiwan is adhered to a fixed exchange rate regime so that this small state can avoid the overvaluation and instability of its currency. Confidence in the dollar created a kind of dollar-bloc regime (or pegged-rate dollar standard). As sum indicates, this money-currency form suited the exportist economies in two ways. "On the one hand, since most East Asian imports and exports are/were invoiced in dollars, it reduced currency risks involved in trading with major markets in the US or elsewhere. And, on the other hand, the dollar pegs anchored their domestic monetary policies. The policies of Hongkong, Singapore, south Korea, Malaysia, Indonesia, and Thailand were thereby loosely tied to each other, protecting each of them from competitive devaluations. Consequently their domestic price levels remained relatively stable between 1980s to 1996." (Sum, 2001: 23).

The state has taken some liberalization measures to copy with the globalized financial system: the liberalization of interests rate, foreign exchange rate and the deregulation of the financial system by granting licenses to private and foreign banks. Though the state had liberalized the financial sector to finance the then rising 'New Economy', information and communication technology, the semi-conductor industry, it has been opened partially. These liberalization measures result in the change of financial structure of firms in Taiwan. Whereas the proportion of indirect finance through the bank system has reduced from 85,8% of the total borrowings in 1990 to 72,9% in 1999, the borrowing from direct finance (money and capital market) has

increased from 14,2% to 27,1% during the same period (Wang, 2001: 19). It means the decreasing role of the traditional bank sector in the financial system.



2.3 The crisis of the East-Asian Accumulation Regime: the Rise of China and Regional Economy

The rise of the economic regional bloc in China since 1990s, together with the collapse of the bubble economy in Japan, are two most important events shaping the regional economy in East Asia profoundly.

As the Prime Minister of Singapore, Joe-Dung Wu, has indicated, the rise of China will be a great challenge for all of the East-Asia countries, whatever they belong to the developed country (Japan), NICs or even the developing countries (Philippines, Indonesian, Thailand etc.) (China Times, 2001, see also Economist, 2001: 57-58). During the time of economic repression in the U.S.A, stagnation in Europe and collapse of bubble economy in Japan, the economic performance of China is rather impressive. China, together with Hong Kong, has absorbed 65% of the FDI in this region. The economic growth remains high given the shadow of global economic depression. As the nearest neighborhood to China, the rise of this economic giant has been an opportunity and also challenge to Taiwan at the same time. Actually, Taiwan is confronted with the globalization through her intensive economic relation with China – an emerging economic bloc since 1990. To make use of the cheap labor force in the mainland China, the capital has flowed into mainland China during the 1990s.

The capital outflow to China has aroused the popular anxiety about the negative impact upon the labor market and the competitiveness of Taiwan's economy. Indeed, this anxiety has become more viable since 1999: the unemployment rate has risen to a historical record, the slowdown in output and productivity has been obvious and the poverty rate has also risen. Taiwan's economy is experiencing the hardest time for the first time since 1945.

Taiwan, with the largest capital reserves in the region in the 1990s has invested heavily in several ASEAN nations firstly, then Guangdong, Fujian in the South China and lastly in the districts nearby Changhai. According to a survey, instead of ASEAN countries, China has become the most favorite country for the most Taiwanese enterprises to invest. The geographic proximity, large domestic market, fertile and cheap labor force, cultural similarity and many capital-friendly policies (competitively priced land and infrastructure) are the main factors inducing the profound investment from Taiwan. The other internal factors pushing the capital outflow from Taiwan is the mounting labor and land costs that restrict further domestic industrial development. 70% of the FDI from Taiwan flow to China. Preparing for China's entering the WTO agreement in the end of 2001, 61,5% of Taiwanese enterprises will keep investing in China. It is estimated that the amount of Taiwanese FDI in China has risen from 11,05 billion in 1991 to 255,53 billion in 2000. Table 4 shows the rising trend of Taiwan's FDI in China from 1991 to 2000. **Taiwan government sources list \$ 2,96 billion in 9.098 investments in the mainland by June 1993 with a recorded \$2,2 billion of this total in industrial enterprises.** In fact, the real amount should be even three times higher than the registered because most of the investments flow into China via Hong Kong.

Table 4 · The FDI of Taiwan's Enterprise in China (1991-2000)

Year	Ratified by the Ministry for Economic Affair (Taiwan)				The Data according to PRC		
	Items	Amount (Billion U. S. Dollar)	Average Investment Scale (ten thousand U. S. Dollar)	Percent of Oversees Investment (%)	Items	Amount of Agreement (Bill. U. S Dollar)	The Real Amount (Bill. U. S. Dollar)

1991	237	1.74	73.48		※ 3, 884	※ 35.37	11.05
1992	264	2.47	93.56	21.78	6, 430	55.43	10.50
1993	Newly Applied 1, 262	11.40	90.33	40.71	10, 948	99.65	31.39
	Amended Applied 8, 067	20.28					
1994	934	9.62	103.02	37.31	6, 247	53.95	33.91
1995	490	10.93	223.00	44.61	4, 778	57.77	31.62
1996	383	12.29	320.95	36.21	3, 184	51.41	34.75
1997	Newly Applied 728	16.15	221.78	35.82	3, 014	28.14	32.89
	Amended Applied 7, 997	27.20					
1998	Newly Applied 641	15.19	236.97	31.55	2, 970	29.82	29.15
	Amended Applied 643	5.15					
1999	488	12.53	256.72	27.71	2, 499	33.74	25.99
2000 (1-9)	562	17.84	317.44	36.73	2, 189	27.39	14.28
Total Sum	22, 696	162.79	71.73	39.48	46, 143	472.67	255.53

Resource: Taiwan's Data is based on Ministry for Economic Affairs;
PRC's Data is based on Ministry for Economic and Trade Cooperation, Bureau
for Foreign Trade.

The trade between China and Taiwan has also risen rapidly in the past decade. China has leaped to be Taiwan's third trade partner, only second to the U.S.A. and Japan. For the years 1979 to 1993 Taiwan's China trade grew at annual rates of 40 percent.. For example, in 1993 China exported \$ 1,5 billion and imported 12,9 billion, a figure fueled by the flow of machinery, equipment, and partially finished goods to Taiwan-owned enterprise on the mainland China. Taiwan has enjoyed great trade surplus to China and estimates about 300 yearly. According to the observation of Selden: "China's Taiwan trade has grown rapidly since the 1980s, reaching \$ 5,8 billion in 1991 and \$ 8,6 billion in 1993 (\$ 7,5 billion of the total representing Taiwan exports). And this was simply the legal trade directed through Hongkong. These figures, moreover, conceal the immense and rapidly growing Overseas Chinese trade and investment emanating from other countries. ... Hongkong, Taiwan, and Overseas Chinese capital in the 1990s surpassed Japan as the dominant source of trade, capital, and investment in China, particularly coastal China" (Selden, 1997: 325-326). Indeed, the China factor has been the decisive element affecting the shaping the future of Taiwan's economy.

The rising investment in China and trade with China is a great opportunity for Taiwan's economy, on the one hand. The geographic proximity and cultural similarity with China is the competitive edge for Taiwan's enterprises. In fact, Taiwan has been regarded as the 'front door' to China and attracted many multinational enterprises to cooperate with Taiwan's partners and co-investment in China. The continuing political confrontation between Peking and Taipei since 1996 has, however, delayed the advanced economic interaction between them. Peking insists on the 'One-China Policy' and offers the 'One Nation, two systems' alternative to Taipei. Being an important part of America's defending strategy against China in Asia during the Cold War, Taiwan could still hold its semi-sovereign status under the protection umbrella of the U.S.A. hegemony in this region. The ex-president Den-Huai Lee, a nationalist inclines to the independence of Taiwan from China, tried to regulate the capital flow and trade between Taiwan and China. He claimed the 'Two-Nations' thesis in 1999 and was regarded as separatist signal by the Peking authority. Peking has therefore closed all the negotiations about the civil interactions and affairs and demand Taipei to accept the 'One-China Principle'. Afraid of losing the autonomous status and becoming a subordinate part of China, the Taiwan authority is still stick to its independence and asks for the equal status with China. The confrontation between them peaked by the presidency election in 2000, in which the opposition party (DPP) president candidate, Shui-Ben Chen, won the election. DPP is the strong proponent power for the independence of Taiwan.

The regulatory policy of government to the investment in China and trade with China has been under siege and attack from oppositional parties (now K.M.T. and People's Party) and the capital. They argue that the regulatory policy has made Taiwan losing its global and regional competitiveness. Facing the rising regional economic giant, Taiwan as a small economy has no choice but to cooperate with China, given the political confrontation situation with it. The information technology and computer industry, the main driving forces of Taiwan's economy in the 1990s, are more interested to the abolishment of government's regulation policy. They believe that Taiwan's niche in the information technology and computer industry is to play the mediator role and intermediates the upstream to Silicon Valley and downstream to (southern) China. On the one hand, Taiwan can make the cheap but qualified high-technical labor force; on the other hand, the technical know-how from U.S.A. could be transmitted through Taiwan. The new dynamic for Taiwan's economy, they argue, lies in the new labor division between two great economic blocs: America and China. Under this circumstance, the regulation policy against China is criticized as an impediment for the global and regional operation of Taiwan's enterprises because it erodes the competitiveness of them. The interest groups of the employers threat to exit from Taiwan. They ascribe this policy to be responsible for the economic recession and drastic rising of unemployment rate since end of 2000. The proponents for this policy argue, however, that there doesn't exist an empirical verifiable relation between the regulation policy and the unsatisfactory performance of Taiwan's economy. The proponents, most of them Taiwanese nationalists, note that the critical point is the industrial reconstruction which targeting the enhancing of productivity. They are anxious that the abolishment of regulation policy could result in the narrowing of the technical bridge between Taiwan and China. As a result, the competitiveness of Taiwan will be eroded through the opening. Nonetheless, it seems that the first opinion gets the upper hand. It has exerted great pressures upon DPP government to give up the regulatory approach.

3. The social policy regime in the shadow of developmental and competition state

Positioning Taiwan's social policy in its globalized economic context, we can see a quite different developmental path compared to that of the small states in Europe.

Advocates of the classical political economy have gone to point out that the developmental state in the East-Asian NICs have relied mainly on private enterprise and free markets to achieve economic development. The state had just played a role

successfully to offer a favorable environment for the private enterprise and free market. They assure that what matters is not whether the state intervene or not, but the 'quality' of the state intervention. The World Bank, for example, lists measures the East-Asian developmental state have taken: the stabilization of the macro-economic structure, avoidance of the price discrimination, liberalization of trade and investment, maintenance of public welfare programs only targeted at the most vulnerable.

3.1 The Development of the Welfare System in Taiwan: Toward a Social Insurance State?

Since World War II, the Taiwanese welfare system has evolved through several stages of development, which has resulted in a rather fragmented system. After fifty years development, the coverage of the social welfare programs in Taiwan has been broadened to the extent that most of the population have been included in this system, particularly since the implementation of the National Health Insurance Act in 1995. The government has conducted the labor insurance (LI)(1950), the military personnel insurance, the Insurance for Civil Servants(ICS)⁵, insurance for teacher and staff in private school, farmer insurance (FI) and the national health insurance scheme (NHI) since 1949. The Labor Insurance, the Insurance for Civil Servants and the Farmer Insurance are three main insurance systems which have covered a variety of risks including maternity, work injury, medical insurance, disability, old age (though in lump-sum benefits), funeral allowance. Since the initiation of labor insurance, the social welfare system is directed toward the social insurance system, which is financed through the earning-related contribution. Generally speaking, the social welfare system in Taiwan combines the character of Bismark and Beveridge model. All of the social insurance schemes are run by the state. Before the implementation of the national health insurance in March 1995, the social insurance schemes are vocation-based. The entitlement of the NHI is based on the status of citizen and no more on the vocational base, thus seemly demonstrating the fit with the Beveridge model.

Compared with the other East-Asia counterparts, Taiwan's social welfare system is characteristic of its fragmented structure (Table 5). The old age security system, for example, is highly segmented and differentiated into seven sub-systems. Before the

⁵ In Taiwan, government employees include bureaucrats and security personnel(57%), education and health care personnel(20%) and material/infrastructure work-force(23%). They enjoy the first tier of the social security system via different programs: Officers' Retirement Law (ORL) specific for officers; Social Insurance Law for Public-Sector's Employees (SILPSE).

implementation of NHI, the public health insurance system, for example, had differentiated into 14 sub-systems! These systems are so complex and result in many problems. First, there exists the problem of double inequality between the different categories in the aspect of benefit level, service catalogue, contribution rate etc. This inequality problem is even serious between those who are included into the social security system and those not (Lue, 1999). Before the implementation of NHI, for example, there were still about 45% of the populations who were not covered by the public health insurance system, most of them are mothers, child, aged and unemployed people. The public security systems are constructed along the occupational line and targeted to the working population who are the resource of the productivity, particular for the small country lacking natural resources like Taiwan. It is quite apparent that the state is inclined to a certain form of social policy – productive social policy. This kind of social policy emphasizes the productive rather than consumptive element of social policy; Instead of offering program which is based on universal citizenship, the system targets to the productive segment of the populations. In sum, the social policy is subordinate to the imperative of economic development but still stands complementary to the economic policy (Yeates, 2001: 88-92). As Deyo, argues, this model had operated effectively and contributed to the rapid exported-oriented industrialization strategy for the East-Asia NICs countries (Deyo, 1992). A question rises, whether this model could still sustain through the challenge of globalization – here I mean the new division of labor between South/North, central/ peripheral countries in the world market?

Table 5. Institutional Fragmentation of Social Security Systems in East Asia

	Korea	Taiwan	Hong Kong	Singapore
Poverty	1 (Livelihood Protection Pr.)	1 (Social Assistance Law)	1 (Comprehensive Social Security Assistance, CSSA)	1 (Public Assistance Pr.)
Old age	5 (Ntl Pension Pr., Gov't Off. Pension Pr., Private Sch. Teach. Pension Pr., Livelihood Protection Pr., Labor Standards Law)	7 (Labor Ins., Gov't Employees Ins., Military Servicemen Ins., Old Age Allowance, Farmers' Old Age Allowance, Social Assistance Law, Labor Standards	3 (Long Service Pay, Social Security Allowance, CSSA)	4 (CPF, Civil Servants' Pension, Dependants Protection Scheme under CPF, Public Assistance)

		Law)		
Unemployment	2 (Employment Insurance Pr., Livelihood Protection Pr.)	2 (Labor Ins., Social Assistance Law)	2 (Severance Pay, CSSA)	0 (Negotiation between employers and employees)
Disability, death and survivor	4 (Ntl Pension Pr., Gov't Off. Pension Pr., Private Sch. Teach. Pension Pr., Livelihood Protection Pr.)	5 (Labor Ins., Gov't Employees Ins., Military Servicemen Ins., Farmers' Ins., Handicapped Welfare Law)	2 (Social Security Allowance, CSSA)	2 (CPF and Dependants Protection Scheme, a kind of life insurance)
Occupational injury	2 (Ind. Accident Comp. Ins., Labor Standards Law)	4 (Labor Ins., Gov't Employees Ins., Military Servicemen Ins., Labor Standards Law)	1 (Employers purchase private insurance)	1 (Employers purchase private insurance)

Source: Adapted from Jacobs (1998).

Defeated by the communist party in mainland China in 1949, the K.M.T. under the leadership of Chan Kei-Shei escaped to Taiwan and had established a military bureaucratic regime to control the society. In 1950, under the shadow of the communist china, the first social insurance scheme – the labor insurance, was implemented in Taiwan. The Military Service Personnel Insurance was also implemented in September in the same year. Considering the difficult political situations of the KMT after the failure of civil war with the communists, it is not surprising that these programs had been set up so effectively and quickly. These welfare programs were taken in the beginning as the political instrument to exchange the loyalty of the people. From the perspective of authoritarian state, the social policy is taken as a political instrument to control the labor force and the civil society. On the one hand, it could contribute to the supply of healthy and productive labor forces; on the other hand, with the “carrot and stick” principle, the social welfare was taken as an effective instrument to pacify the labor conflict. Simply formulated, the welfare is not seen as an integral component of the citizen rights, but a benevolent will of the patrichoical state, particularly from the perspective of the Confucianism (Zeigler, 1988: 117-146).

Table6: The Percentage of Social Welfare Expenditure to GDP

Unit : %

YEAR	TAIWAN	U.S.A.	JAPAN	KOREA	SINGAPORE	CHINA
1991	4.5	10.8	12.0	2.5	1.8	6.7
1992	4.5	11.5	12.7	2.4	1.7	6.6
1993	4.4	11.7	13.6	2.4	1.7	7.5
1994	4.4	11.7	14.0	2.6	1.4	9.5
1995	5.2	11.7	14.6	2.4	2.0	11.5
1996	5.8	11.6	14.8	2.9	3.4	12.8

Since the 1960s, rapid economic growth has changed the nature of the KMT from a military bureaucracy into a development-oriented state apparatus (Amsden, 1985). Located in the periphery of the world system in the initial phrase of industrialization, the developmental strategy of Taiwan has been directed toward export-oriented and low- labor cost orientation in the initial phrase of her economic development. To accomplish this goal, the developmental state had to dampen the labor cost. Based on this consideration, the welfare system has been specified as a disadvantageous factor for the competitiveness in the world market. The state should have paid little attention on the development of welfare system. Compared to the advanced industrial states, the social welfare system NICs is indeed underdeveloped. Actually, the NICs have developed a certain form of social policy (Holliday, 2000).

Regarding the social policy the EOI regime subordinates whatever state provision exists (e.g., education) to the exportist strategy. These social policies are complemented by private self/family help and company/public-linked organization providing housing, welfare and other support. This means the commodification of housing, medical, educational and social welfare policies (Deyo, 1992) to be complemented as appropriate by other ‘workfare shelters’, such as the extended family and other social networks. Based on the residual role of social policy in East Asian development Gough characterizes the welfare regimes as the ‘productivist welfare capitalism’. The main feature of this type of welfare capitalism is the subordination of social policy to the imperative of economic growth. He argues that:

Social expenditure were small but relatively well targeted on basic education and health as part of a strategy of nation-building, legitimation and productive investment. The growth in welfare over the last three decades has relied on the expansion of formal employment within the orbit of strong families, plus growing payment for services (2000: 16).

Generally speaking, the development of social policy in East-Asian is compatible with economic policy. The social policy serves as a complementary part to the developmental economic policy. To serve the goal of development, the social policy in East-Asia reveals the general character to emphasize the dimension of human capital. Therefore, most of the welfare schemes target to the education, vocational training, health and housing. Indeed, the relation between social and economic policy varies between different phrases and differently across the four tiger countries (Holliday, 2000).

Hongkong's welfare system is famous for its public housing system which functions as a effective instrument to liberalize the female labor force from the traditional community and most important, to dampen the life cost of the workers. Thus, the public housing policy had, though unintended in the beginning, contributed to offering affordable subsistence level for the fertile labors. Singapore and South-Korea are famous for their investment in education

Let's come back to the case of Taiwan. While the 1990s is the era of dismantling and deregulation of social welfare in the advanced industrial democracies, the government in Taiwan has institutionalized many welfare programs and expanded the number of coverage to protect workers, their dependent families and disadvantaged group in the current conditions of industrial reconstruction due to the economic globalization. The expenditures of social welfare in the governmental budget has increased from 11,1% in 1980 to 24,7% in 1999. Its share in GNP has increased from 2,9% to 6,1% during the same period (Taiwan Statistic Data Book, 2000). Table 6 shows that the percentage of social welfare expenditures was grown from that of 3,8% in 1980 to that of 13,5% in 1999. In terms of the structure of the social welfare expenditures, social insurance ranks the highest since 1995, covering a total of 45% among all welfare expenses in 1998, followed by the welfare services' expenditure (38,2%), and social assistance expenditures (12,5%), etc. The rapid rise of welfare expenditure in 1995 resulted from the implementation of National Health Insurance (NHI), the most important welfare institution for Taiwan in 1990s. However, as Midgely investigated the relation between industrialization and the development of the social welfare system in the four East-Asian tigers, he concluded that they reveal the character of the so called 'reluctant welfarism'. As we will see later on, *the social policy has been manipulated as a useful instrument by the ruling party to confront the contradictory trends between political democratization and economic globalization.*

It shows that the social insurance system has been propounded by the state policy elites as the basic guideline of the welfare system in Taiwan. The system is basically a mechanism of income transfer and provocative to the productive group to maintain

the productivity of the labor force and to some degree, their political loyalty to the authoritarian regime. Whereas the welfare system is directed to the disadvantaged, mostly delivered in kind. Because of the strict eligibility, those who are eligible to receive the social assistance benefits account for only 0,8% of the population. The underdeveloped social assistance system has therefore been severely criticized for its strictness and can't offer a basic economic safety net for the poor, particularly in the hard times when the unemployment rate has risen drastically since 2000.

Table 7 Central Government's Social Welfare Expenditure's Structure in Taiwan

Unit: Million NT \$, (%)

Year	Growth rate	Total	Social Insurance	Social Assistance	Welfare Services	Employment	Health Care
1994	-	91,046 (100.0)	30,789 (33.8)	3,364 (3.7)	44,708 (49.1)	2,232 (2.5)	9,953 (10.9)
1995	47.7	134,464 (100.0)	66,194 (49.2)	9,533 (7.1)	48,354 (36.0)	2,053 (1.5)	8,330 (6.2)
1996	6.9	143,737 (100.0)	61,992 (43.1)	17,316 (12.1)	54,808 (38.1)	3,207 (2.2)	6,414 (4.5)
1997	4.4	150,020 (100.0)	62,484 (41.7)	15,532 (10.4)	62,773 (41.8)	3,636 (2.4)	5,594 (3.7)
1998	5.1	157,703 (100.0)	70,994 (45.0)	19,793 (12.5)	60,192 (38.2)	1,743 (1.1)	4,981 (3.2)

Source: Ministry of Finance,1999

Before coming to the two most important tiers of Taiwan's social security systems, I would like to give a short introduction of the other programs. The Unemployment insurance has not been fully institutionalized until 1999. The Unemployment insurance will become exceedingly important given the growing unemployment rates along with the economic downturn and structural transformation in Taiwan after the Asian financial crisis. Whereas very few people claim this system because the eligibility criteria is highly set.

The problem with the Work Injury Insurance system stems from the overlap and confusion with employers' responsibility for injuries that occur in the workplace.

In terms of personal income distribution, the income inequality in Taiwan has risen since 1990. The income disparity between the lowest 20% and the highest 20% families (the D5/D1) earnings ratio has widened from that of 4.21 times in 1981 to

5.51 times in 1998 (CEPD, 2000). To what extent is this trend of widening income distribution related to the globalization, still demands further investigation and empirical studying. What we can be sure is that the existing social assistance system in Taiwan can't really offer the basic protective function facing the challenge from rapid economic reconstruction. Social assistance as the safety net in the social welfare system doesn't receive enough attention from the government in Taiwan. The policy-maker believes that too much welfare could make the citizen lazy and become dependent on the public support system. This will retard the work incentive and raise the inflexibilization of the labor market. Based on this consideration, the poverty line is set and audited very strictly. Indeed, under the strict scrutinization procedure and rigorous setting of poverty line, there are only 0,8% of the populations are eligible recipients, which is far behind the international average. The social assistance system is financed through general revenues and administrated by municipal service agencies. The eligibility must be fulfilled through means-test. The benefit is very mean that it actually can't be usefully utilized. The data shows, the single-parent families and the living-alone aged are the vulnerable groups of poverty. By the rising of unemployment rate since 2000, many unemployed aged workers have also become the potential targeting groups for the social assistance system.

Confronting the challenge of economic reconstruction due to globalization and liberalization and the rising people's power due to democratization since 1986, as I have mentioned, some welfare programs (most of them are piecemeal) have been released from the pacify the dissatisfaction from the disadvantaged people. Given the challenge, the policy elites are still doubtful to the value and positive function of social policy. Accompanying the rising influential power of Neo-Conservatism in 1980s and Neo-Liberalism in 1990s in the U.S.A. and to some degree in Europe, these policy debates in the west have become an ideological shield for the residual role of state in the social welfare in Taiwan. They are convinced that the welfare state experience in Europe after the War shows that it will be a financial burden for the government. The policy elites are inclined to the deregulation of labor market and the privatization of social welfare and argues that such an institution could harm the export-oriented economy like Taiwan to the least degree. The state has therefore offered the welfare programs in a rather careful way. The state has offered welfare policies directed to vocational and in-job training programs to retrain the labor force. The prevail of welfare pluralism discussion in the European context since end of 1980s has also evoked the government to reemphasize the value of familism and self-reliance and the role of family in the delivery (and even financing) of welfare services.

In sum, the general characteristics of social welfare system in Taiwan could be

summarized as the following points:

1. Developmentalist (the Subordination of Social Policy to Economic Policy)
2. Productivist (Investment upon Human Capital Investment: Education, Work Training, Health and partly Housing)
3. Weak Social Democracy (Weak Labor Union and Leftist Party)
4. Middle Conservatism (the Special Role of Family in the Delivery of Welfare Services)
5. Strong Etatism (Emphasis upon the privileged Status of Military Servicemen, Official and Teachers.)
6. Partly state regulated welfare system (the principle of Social Insurance System)
7. Middle Corporatism (the differentiated Status of Social Insurance System alone the line of Occupation)

4. The Politics of Welfare Reform: The NHI and Pension Reform as Two Examples

4.1 The NHI: Decentralization or Privatization?

The national health insurance (NHI) is a newly implemented social insurance scheme in Taiwan. The guiding principle of the NHI is constructed according to the Bismarkian principle. After the legislation of this act, the government is obligated to provide the basic health care for diseases, injuries and childbirths. All of the citizens are obligated to be insured in this system. This system is financed by the earning related contribution as a payroll tax, which is set by 4,25% of the earning income. This 4,25% contribution rate is, however, split between the employee and the employers at different ratio according to the different occupational and social category an employee is ascribed. The service catalog is rather generous and covers the inpatient and outpatient services. In terms of providing the citizen with medical care and health insurance, the NHI consequently provided nearly 97% of the population with equal access to the medical treatment and health care. The total health care expenditure accounts for about 5.5% of GDP and has been quite stable since the implementation of the NHI. This ratio is lower to the average amount of the OECD and ranks the lowest level from the perspective of international comparison. The most important achievement of NHI is to consolidate the above mentioned complex and different healthy insurance schemes (among LI, ICS and FI etc.) into an integrative system which resembles the Beveridge model.

This system is run by the national health insurance bureau, which is administratively subordinated under the Ministry for the Public Health. The NHI is

therefore, organizationally run by the state. This organizational principle is different from the traditional social insurance system, which is normally run by the para-state organs, e.g. the Krankenkasse in Germany and Japan, the model of social insurance system. The NHI was controversial during the process of legislation because of its stipulation of its establishment as the monopolistic provider of health insurance which is regarded as contrary to the mainstreams of deregulation. The opposition party (DPP) criticized such a system would result in the moral hazards of the insured and strengthen the power of the government.

As the experience of many advanced industrial countries shows, Taiwan's health care system also experiences the explosion of cost. Aside from the factors as the rapid progress of medical technology, the rising of elderly people, some factors are ascribed to the explosion of cost. The payment system takes the traditional form of fee for service (FFS), which has been regarded as an engine for cost escalation because the physicians are motivated to oversupply. After a few years of rampant increasing, the expenditure has been halted after 2000. The successful intervention of cost containment is owed to the hierarchical measures on both the demand and supply sides.

The rising health expenditure has raised many options to contain the cost. Many economists suggest that the individual account system of Singapore could be a model for the NHI. The individual saving account system is principally a compulsory deposits system.

4.2. The Pension Reform: Solidarity or Individualization?

The pension system accounts for the most part of the expenditure of social security system and is the main institution to protect the economic security of the aged. However, this system is quite underdeveloped in Taiwan and demand great reform. Nowadays there are some 4,000,000 citizens in Taiwan who are still excluded from the public pension system. The only way for protecting their economic security after retirement depends either on their private savings or on the support of their children. Due to the declining role of nuclear family, the social support function of family will be increasingly eroded in the process of modernization. Furthermore, the aging problem has been a serious problem for the future of social security system. The aged people above 65 has reached 8.4% of the total population by now. It is estimated that it will grow to 10% in 2011 and 20% in 2031 respectively.

The Labor Insurance, the Civil Servants' Servants' and Teachers' Insurance now offers retirement benefits. According to the 1984 Basic Labor Standard Act, the private enterprises should provide old age pension for labors when retired. But it is

benefited in a lump sum payment rather than an annuity plan. This system has been severely criticized for their lump sum payments which can't protect labor's income security over an extended period of time. Among those who are covered by the public pension system, the public officials, military personnel and teachers are the privileged groups. They are covered by a retirement pension system. This system is similar to German public official's retirement pension scheme which is financed by government's budget. Following a 1993 revision, however, it resembles Japan's public official's retirement fund system which is a social security fund system by nature. In other word, they can enjoy a two-tier insurance. After 25 years employment in the government or aged above fifty years old, they can be retired and entitled to receive an annuity. The income replacement rate of the pension could be equivalent to 80% of their wage. Compared with the other countries, this system is quite generous and have resulted in financial burden for government.

Apart from the pension for labors and public employees, there have developed many allowance programs targeting to the disadvantaged groups due to the party competition between KMT and DPP in the process of democratization since 1987. To win the election, the DPP has attacked the underdevelopment of pension system in Taiwan due to the neglecting of then rules government party, KMT. The DPP demanded to set out an institutionalized pension system to all citizens and offering allowance programs for certain disadvantaged aged people in the transitional period. The DDP had won the local and parliament elections since 1992 partly due to this topic. The KMT was therefore forced to offer allowance programs and engaged in the establishment of an institutionalized pension system. "Living Allowance for Low-Income Families' Elderly" (NT\$ 3000-6,000 per Month), "Welfare Subsidies for Elderly Farmers"(3,000 per month), "Subsidies for the Elderly" (3,000-8,000 per month) and "Living Allowance for the Veterans" (14,625 per month). All of the programs are financed by tax. It is quite apparent that the existing pension systems in Taiwan are so fragmented that the eligibility and benefit level among different social groups results in the problem of equality and equity.

To confront the political challenge from the DPP and integrate all the fragmented schemes, the KMT had nominated in 1994 a task force designate to the CEPD to set out a reform program of the pension system. After enduring debate and discussion, a reform program was completed in 1998. According the plan, it should have been scheduled to be legislated and implemented in 2001, but was postponed in the end, because the KMT was defeated in the presidential election in 2000.

KMT's pension reform program is based on the principle of social insurance, which is by far the most popular model in the world. The guideline of this system is targeted at "providing all citizen the basic elderly protection with the supplementary

pension benefits worked out by different occupational groups and the market mechanism where each citizen can purchase further protection as needed from the private insurance”(Chen, 2001: 13). The so-called three-tier protection system suggested by the World Bank is set as the blueprint for the planning of the pension system in Taiwan.

Theoretically, to add supplementary levy on personal income tax, payroll tax, and/or business income tax should be a viable way of raising funds for pension. Nevertheless, viewing the fact that there exists rather narrow tax base and business income tax increase may cause inflation, the policy maker has to give this alternative up.

After winning the presidential election of 2000, the DPP tries to redefine the social policy. Compared to the KMT as sticker of social insurance model, it seems that it is still difficult to observe the blueprint of ruling party’s social policy program. The DPP had set out the so called ‘Three 3’s’ and ‘Five 5’s’ welfare program as the party program during the election. This program plans to grant 1) those who is aged above 65 a N.T \$ 3,000 monthly living allowance; 2) for children under three years old free medical care; and lastly 3) those first-time house buyers an interest rate as low as 3%. In addition, ‘five 5’s’ program are also on the way. They plan to 1) increase 50% of the number of day-care and kindergarten teachers; 2) increase 50% of female labor participation rate; 3) cut down 50% of the number of school dropouts; 4) 50% decrease of woman care burdens at home; 5) 50% decrease of women’s victims of violent crimes.

Instead of aiming at the institutionalization of social insurance system, i.e. the public pension system, it seems that the social policy of DDP concentrates on the welfare services. Most of the items of ‘Five 5’s’ are targeting to women’s welfare. Compared to other OECD countries, The female labor participation rate of Taiwan still lags behind the average standard. This is mainly due to the underdeveloped supply of the public welfare facilities, e.g. the community care for the elderly and the child caring. This results in the heavy loading for the women in the family and retards the work incentive of the women to enter into the labor market.

To lessen the care burden of women in the family, more day-care and long-term care organizations for the elderly are planned to establish. As for the children welfare, the most important is education voucher up to NT \$ 10,000 per year for every child visiting the kindergarten. Further more, the ‘Equal Employment for the Female and Male Act’ has been set out in the agenda for legislation. This act aims to ensure the equal employment and education opportunities. These measures and programs intend to release the care burden of women and enhance their incentive to participate in the labor market, particularly the service sector. For financing these programs, it needs to

levy tax or widen the tax base to implement them. According to the agenda of the K.M.T. government before the president election, the public pension system should have been implemented from 2000. It is expected that its implementation would be helpful to solve the problem of elderly economic security. Due to the unintended 921 earthquake in 1999 and the accompanying global economic recession since 2000, the governmental revenues become more limited. The government is forced to forge out the pension system and implement only part of the welfare programs selectively. The government claims to put the allowance program for the elderly above 65 in the coming year (2002) into practice. It has been criticized by the opposition party as a political instrument flattering the aged people for winning the Parliament election in the end of 2001. Without an adequate financing resource, it is quite apparent that the implementation of these welfare programs will unavoidably create squeeze effects on other aspects of governmental expenditures.

4.3 The social policy regime in hard times: the rising unemployment rate and the public deficit problem

Since the end of 1999 Taiwan has experienced a serious downturn of economic development and the resulting rising unemployment rate. Normally, the unemployment rate could be successfully controlled under 3%. Since 2000 it has reached 4% or even 5% because of the challenge of a rising economy – China and the unsuccessful reconstruction of the industry. The data shows that Taiwan is situated in the period of hard times: the rise of the unemployment, the decline of the industrial productivity, the recession of export and the stagnation of economic growth. The continuing rise of suffering index (unemployment and inflation rate) reveals the weakness of social security system in Taiwan. In the stage of rapid economic development, the developmental state convinces the people that economic growth is the best welfare. When the economy stagnates, the residual social security system can't be affordable to absorb the risks due the structural change of the economy. The consequence is the widening social inequality among the rich and the poor and the potential social conflict which could even lower or impede the economic reconstruction. It is believed that the rising suicide and criminal rate since 1997 in Taiwan is related to the economic recession.

Given the hard situation of economic recession, the government has rather limited financial resources to push the institutionalized social policy forward. The reason is the rising debt problem of the governmental finance. During 1970s, the average Taiwanese governmental deficit was only 3,8% of the governmental expense. It peaked into an average of 18.9 percent during 1991 to 1999. The government issued

bonds or borrowings worthy over \$22 billion to finance the 'Six-Years State Construction Plan' under the Prime Minister Po-Tsan Ho, which was almost five times the government bond issue in 1990. In other word, One-quarter of government spending is financed by borrowing. The proportion in relation to GNP has doubled since 1990. Due to the lending, paying debts constituted 6,2% of 1990 central governmental expenditure and peaked as 13,9% by 1999. The debt problem is reflected in debt interest payments which peaked in 1993. It has narrowed the room for the government to issue more bonds to initiate more infrastructure programs necessary for the economic development and furthermore, to satisfy the welfare needs in the process of globalization and economic adjustment. Though it has declined since 1998 due to a series of austerity measures of the government, the financial structure remains still serious. Considering the worsening public finance, it seems that it is not likely that the government will expand the welfare expenditure in the foreseeable future, given the rising demand on social security system in the process of economic transformation⁶.

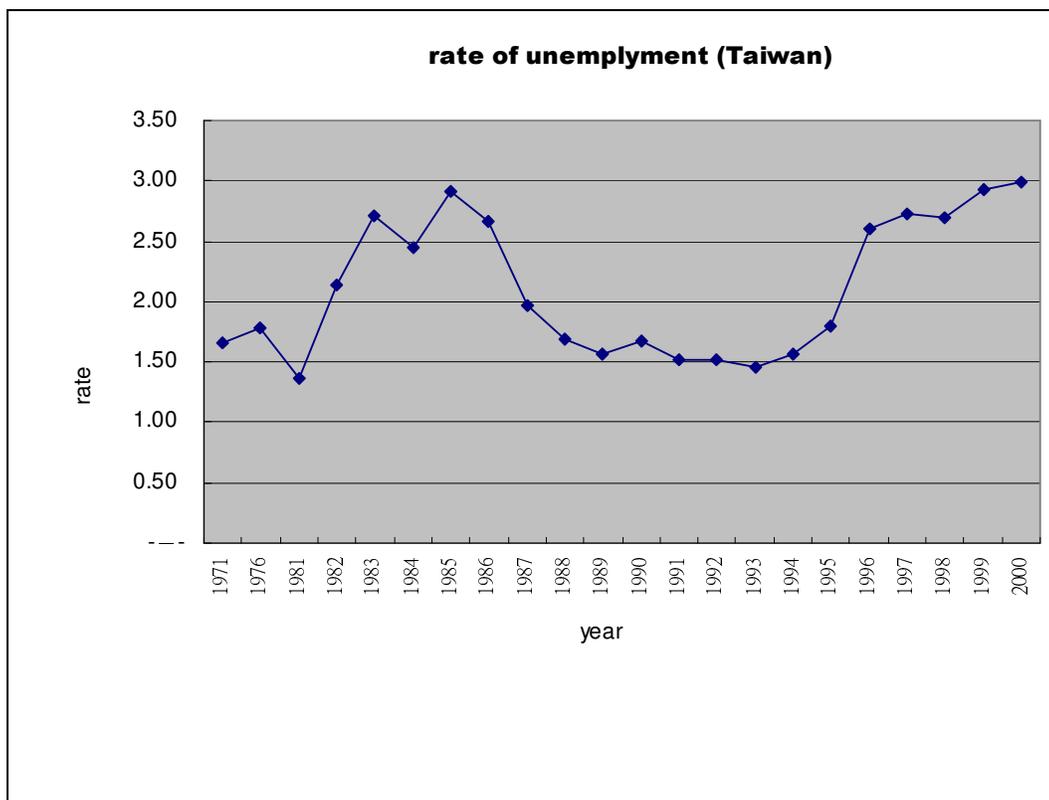
The third factor determining the social policy development in Taiwan is the minority government since the 2000 presidential election. Under the one-party hegemony since 1949, the KMT had enjoyed the status of the most powerful party in Taiwan. Through the martial law and under the Cold War regime, the KMT could dominate the civil society and pursue the developmental economic policy through the authoritarianism regime.

By the 'third wave' of democratization since 1987, the KMT had transformed its nature from an authoritarian to a democratic party. It had abolished the martial law and competed with the then opposition party (DDP) through democratic elections. From 1989 on, confronting the great challenge of DDP, the KMT could still hold the absolute majority in the parliament. Due to the different position of 'China-policy' within the party, the KMT had dismantled to three fractions: the orthodox KMT, the People's Party and the New Party. The DDP made available of the disunity between them and won the presidential election of 2000. Though the DDP had won the election, it still faces the problem of minority government. On the one hand, the DDP gets only 36% of the seats in the parliament. On the other hand, due to the ambivalence in the constitutional amendment about the political institution, there

⁶ To apply for membership in the WTO, the monopolistic state- and quasi-state enterprises should be privatized and would face the fierce global competition from the foreign suppliers. The huge overhead costs in some state enterprises will be planned to reduce. By selling the lion share of state enterprises in the stock market, the government has expected to gain huge capital from the financial market as return, but it seems not so effective.

arises different interpretations between ruling and opposition party. Whereas the DDP is inclined to the semi-presidential institution, the Pan-KMT is inclined to the cabinet system according to their different interpretation to the constitution. Their different interpretation is based on their respective political calculation. As a result, the political atmosphere between the DDP and the Pan-KMT is confrontation-oriented rather than cooperation-oriented. The relation between the powerful parties is situated in a zero-sum game. If the consensus-building is a costly resource for the small state, particularly in a economic hard time, then it seems that we are not allowed to be optimistic to the the continuing political confrontation

Fig. 2 The Unemployment rate of Taiwan



The limited governmental revenue

The tax policy in Taiwan is based on the principle of supply side economics. Based on this principle, the government believes that tax cutting could enhance the incentive of investment. The enlargement of investment could not only create employment. Furthermore, the prosperity of economy could add the amount of tax revenues. One of the important instrument is the tax policy. The improvement of the investment environment has been an important policy goal of government to attract

the foreign investment. The best example in case is the 1991 'Industry Upgrading Promotion Act'. The highest rate of corporate tax is 25% and that of income tax is 40% (Sun, 1996). Under this circumstance the president still claims to reduce the tax rate to improve the investment environment.

5. Concluding Remarks: From Developmental to Neo-Liberal Social Policy?

The social policy of East-Asia countries is oriented to the formation of human capital and the maintenance of qualified labor force. Two dimensions of social policy should be distinguished: the productive and distributive social policy. The main character of productive social policy is oriented to the formation of enhancing the competitiveness of the national economy in the world market, whereas the distributive social policy aims to the attainment of social equality through redistribute means, e.g. regressive tax system, social insurance etc. Considering enhancing the competitiveness in the world market, the East-Asia countries have to concentrate their limited resources to specific sphere of social policy: education, training, health, housing, work injury insurance or particularly foods supply (Jones, 1993). All of these are contributed either to the formation of qualified labor force or the cost of worker's subsistence in an affordable level. By contrast, the distributive dimension of social policy has been neglected in the development of East-Asia NICs. Some important components of social policy, e.g. pension system, unemployment insurance and social assistance have been negligible or underdeveloped. It seems that the Asia financial crisis and the economic recession have given these newly industrialized countries a new dynamic to establish an institutionalized social security system.

An interesting tendency is that the NICs seemly take another path of social policy to encounter the challenge of increasing globalized and highly unstable world market. The aspect of individual self-responsibility and self-help is emphasized by the policy elites in the construction and reform of social security system. The dimension of social solidarity and redistribution among citizens is put in the secondary place in the formation of social policy. The state is not expected to play the paternalistic role as before but to act as an enabling state who facilitates every citizen the competitive capacity in the market. To cushion against risks resulting from the process of 'constructive destruction', every citizen has to be facilitated with capacity through continuing education and self-training to copy with the fierce competition from other countries. On the other hand, 'social' security system will be constructed according to the individualization principle. The Central Provident Fund is a good example of this principle. The government ascribes every citizen an individual account. The account is

financed by the contribution from the employers and the employees. This system is characteristic of 'save as you earn'(Low and Aw, 1997: 8-15). It doesn't indeed have the effect of redistribution between 'better risks' and 'bad risks' but can only function in its perfect form as a compulsory saving system organized by the state. The redistribution occurs only within the life course of the individual. In a strict sense, it can't be understood as a social welfare system but a compulsory individualized insurance system. The value hidden behind this system is the idea of self-reliance. Though the state still plays an active role to enable the people to adapt themselves to the market, the state is not responsible for the result of competition, at least not for the outcome. The equality is understood as the equal access to the resources (mainly education) and opportunity of life chances. The second role of state is to force very citizen participate in an insurance system administrated by government. In this sense, the CPF is more socialistic than liberal idea. The characteristics of productive social policy regime, according to the East-Asia experience, can be generalized as follows: a) the most part of social policy is targeting to the 'productive' aspect; b) the emphasis upon individual responsibility and self-help; c) du to a weak civil society, most of the social insurance schemes are administrated by government or para-governmental organizations.

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